中漆集團有限公司
CPM GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1932)

ANNOUNCEMENT OF 2022 INTERIM RESULTS

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2022	2021	
	(Unaudited)	(Unaudited)	Change
Results	**HK$'000**	HK$'000	%
Revenue	**310,152**	403,797	–23.2
Gross profit	**62,497**	92,322	–32.3
Gross profit margin	**20.2%**	22.9%	–11.8
Loss attributable to shareholders of the Company	**(50,384)**	(16,791)	200.1
Loss per share (HK cents) Basic and diluted	**(5.04)**	(1.68)	200.1

	As at 30 June 2022	As at 31 December 2021	
	(Unaudited)	(Audited)	Change
Financial Position	**HK$'000**	HK$'000	%
Cash and cash equivalents and pledged deposits	**146,029**	238,402	-38.7
Bank borrowings	**232,540**	216,077	7.6
Gearing ratio	**51.4%**	40.8%	26.0
Net asset value per share (HK$)	**0.46**	0.53	-13.2

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 2022 together with comparative amounts for the corresponding period in 2021. 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 2022

	Notes	**Six months ended 30 June**	
		2022	2021
		(Unaudited)	(Unaudited)
		HK$'000	HK$'000
REVENUE	3	**310,152**	403,797
Cost of sales		**(247,655)**	(311,475)
Gross profit		**62,497**	92,322
Other income and gains, net	3	**7,710**	7,318
Selling and distribution expenses		**(46,924)**	(52,622)
Administrative expenses		**(58,431)**	(54,544)
Other expenses, net		**(12,744)**	(6,943)
Finance costs	4	**(2,348)**	(2,141)
LOSS BEFORE TAX	5	**(50,240)**	(16,610)
Income tax expense	6	**(280)**	(77)
LOSS FOR THE PERIOD		**(50,520)**	(16,687)
ATTRIBUTABLE TO:			
Owners of the parent		**(50,384)**	(16,791)
Non-controlling interest		**(136)**	104
		(50,520)	(16,687)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	7	**HK (5.04) cents**	HK (1.68) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
LOSS FOR THE PERIOD	**(50,520)**	(16,687)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(30,872)**	5,509
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(30,872)**	5,509
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(81,392)**	(11,178)
ATTRIBUTABLE TO:		
Owners of the parent	**(81,107)**	(11,308)
Non-controlling interest	**(285)**	130
	(81,392)	(11,178)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

	Notes	**30 June 2022 (Unaudited) HK$'000**	31 December 2021 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**186,612**	191,118
Investment properties	10	**78,845**	81,703
Right-of-use assets		**79,992**	80,442
Equity investment designated at fair value through other comprehensive income		**300**	300
Deposits for purchases of property, plant and equipment		**4,645**	4,850
Deposits		**309**	282
Net pension scheme assets		**5,548**	5,548
Deferred tax assets		**15,764**	16,537
Total non-current assets		**372,015**	380,780
CURRENT ASSETS			
Inventories		**65,737**	81,077
Trade and bills receivables	11	**398,951**	440,153
Prepayments, deposits and other receivables		**59,248**	63,068
Pledged deposits		**34,890**	42,308
Cash and cash equivalents		**111,139**	196,094
Total current assets		**669,965**	822,700
CURRENT LIABILITIES			
Trade and bills payables	12	**259,146**	352,404
Other payables and accruals		**62,005**	73,351
Interest-bearing bank borrowings		**232,540**	216,077
Lease liabilities		**2,582**	2,762
Tax payable		**9,807**	10,242
Total current liabilities		**566,080**	654,836
NET CURRENT ASSETS		**103,885**	167,864
TOTAL ASSETS LESS CURRENT LIABILITIES		**475,900**	548,644

	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
NON-CURRENT LIABILITIES		
Lease liabilities	**5,405**	710
Deferred tax liabilities	**13,662**	13,818
Deferred income	**808**	1,002
Total non-current liabilities	**19,875**	15,530
Net assets	**456,025**	533,114
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**100,000**	100,000
Reserves	**352,772**	429,576
	452,772	529,576
Non-controlling interest	**3,253**	3,538
Total equity	**456,025**	533,114

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 2021.

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 2021, 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 3	*Reference to the Conceptual Framework*
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts - Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

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

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.

- HKFRS *16 Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Hong Kong	**36,790**	34,959
Mainland China	**273,362**	368,838
	310,152	403,797

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

(b) Non-current assets

	30 June	31 December
	2022	2021
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Hong Kong	**1,894**	2,769
Mainland China	**348,200**	355,344
	350,094	358,113

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

Information about a major customer

During the six months ended 30 June 2022 and 2021, 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	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Revenue from contracts with customers	**310,152**	403,797

Disaggregated revenue information

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Type of paint and coating products sold		
Industrial paint and coating products	**116,149**	148,401
Architectural paint and coating products	**134,546**	191,332
General paint and coating and ancillary products	**59,457**	64,064
	310,152	403,797
Timing of revenue recognition		
Goods transferred at a point in time	**310,152**	403,797

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Other income and gains, net		
Bank interest income	**1,058**	631
Interest income from structured deposits	**–**	89
Fair value gain on investment properties	**702**	–
Government grants*	**1,312**	3,025
Government subsidies^	**728**	–
Gain on disposal of items of property, plant and equipment, net	**221**	105
Foreign exchange differences, net	**1,365**	9
Recognition of deferred income	**155**	153
Rental income from investment properties	**1,754**	2,437
Others	**415**	869
	7,710	7,318

* 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 2022, government subsidies were granted from the 2022 Employment Support Scheme under the Anti-epidemic Fund of the Hong Kong government. There are 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	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank loans	**2,265**	2,084
Interest expense on lease liabilities	**83**	57
	2,348	2,141

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**247,655**	311,475
Depreciation of property, plant and equipment	**13,413**	11,632
Depreciation of right-of-use assets	**3,366**	3,555
Equity-settled share option expenses	**4,303**	–
Provision for impairment of trade and bills receivables*	**522**	–
Staff termination cost*	**6,663**	–
Write-down/(write-back) of inventories to net realisable value, net@	**299**	(6)
Gain on disposal of items of property, plant and equipment, net*	**(221)**	(105)
Fair value loss/(gain) on investment properties*	**(702)**	364
Write-off of items of property, plant and equipment*	**2**	216
Foreign exchange differences, net*	**(1,365)**	(9)

* 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 2021: 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 2021: 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 2021: 15%) had been applied during the period.

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

The calculation of basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent of HK$50,384,000 (six months ended 30 June 2021: HK$16,791,000) and the weighted average number of ordinary shares of 1,000,000,000 (six months ended 30 June 2021: 1,000,000,000) in issue during the period.

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 June 2022 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic loss per share amount presented. No adjustment has been made to the basic loss per share amount presented for the six months ended 30 June 2021 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2021.

8. DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired items of property, plant and equipment at costs of HK$17,020,000 (six months ended 30 June 2021: HK$8,666,000).

Items of property, plant and equipment with an aggregate net book value of HK$88,000 (six months ended 30 June 2021: HK$42,000) were disposed of by the Group during the six months ended 30 June 2022.

10. INVESTMENT PROPERTIES

	30 June 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
Carrying amount at beginning of period/year	**81,703**	79,830
Fair value gain/(loss)	**702**	(242)
Exchange realignment	**(3,560)**	2,115
Carrying amount at end of period/year	**78,845**	81,703

The Group's investment properties were revalued on 30 June 2022 based on valuations performed by BMI Appraisals Limited, an independent professional qualified valuer, at HK$78,845,000. Fair values of the Group's investment properties are generally derived by using the income capitalisation 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 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
Within three months	**170,590**	195,459
Over three months and within six months	**63,720**	117,589
Over six months	**164,641**	127,105
	398,951	440,153

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 2022 (Unaudited) HK$'000	31 December 2021 (Audited) HK$'000
Within three months	**163,726**	328,097
Over three months and within six months	**88,920**	24,265
Over six months	**6,500**	42
	259,146	352,404

The trade and bills payables are unsecured, non-interest-bearing and are normally settled within two months. As at 30 June 2022, bills payable with an aggregate carrying amount of HK$113,445,000 (31 December 2021: HK$136,543,000) were secured by time deposits of HK$33,018,000 (31 December 2021: HK$40,963,000).

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 adopted by 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, but not limited to, 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 shall vest 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.

None of the share options granted during the six months ended 30 June 2022 under the Scheme was exercised, cancelled or lapsed.

The fair value of equity-settled share options granted during the six months 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
Exercise price (HK$ per share)	0.335

The fair value of the share options granted on 15 June 2022 was HK$8,417,000 of which the Group recognised share option expenses of HK$4,303,000 during the six months ended 30 June 2022 (30 June 2021: Nil).

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2022, most of the major industries in Mainland China recorded a slow growth as compared with the first half of 2021. Such low growth rates were primarily due to the absence of the effect of the strong economic rebound in the first half of 2021 and the stringent lockdown measures implemented in certain regions in Mainland China since March 2022, which affected the industrial production and impeded the logistic flows of the supply chain. According to the National Bureau of Statistics of China (the "NBSC"), the growth rate for the gross domestic product ("GDP") in Mainland China decreased by 10.2 percent points from 12.7% to 2.5% in the first half of 2022, as compared to the first half of 2021. China's economy did not experience any strong recovery in the first half of 2022 and repeated lockdowns were imposed for the prevention of the widespread of the COVID-19 pandemic in different provinces or cities in Mainland China in the first half of 2022, resulting in aggregate in a decrease of 13.5 percent points in the GDP growth to 4.8% during the first quarter of 2022, and a 7.5 percent points decrease to 0.4% during the second quarter of 2022. In addition, according to the Hong Kong Census and Statistics Department, Hong Kong's GDP decreased by 3.9% during the first quarter of 2022 and is expected to continue to decrease by 1.3% during the second quarter of 2022. Facing such a difficult and challenging economic environment, the Group's revenue for the six months ended 30 June 2022 decreased by 23.2% to HK$310.15 million, as compared to HK$403.80 million for the six months ended 30 June 2021.

Geographically, for the first half of 2022, Eastern China, Central China and Southern China consistently accounted for two-thirds of Mainland China's GDP. As compared to the first half of 2021, the GDP of Eastern China, Central China and Southern China increased by 2.0%, 1.0% and 0.6%, respectively, during the first half of 2022. However, the growth rate of the real estate industry decreased by 4.6%. This was particularly due to the significant decreases in the completion area in the real estate projects in the provinces or cities of Eastern China, Central China and Southern China during the first half of 2022, which was in the range between -12% and -60%, -18% and -31%, and -5% and -1%, respectively, as compared to the first half of 2021. As a result of the sluggish real property market in Mainland China and the delayed completion of new residential and commercial property projects, the Group's revenue generated from customers in the real estate sector in Eastern China, Central China and Southern China for the six months ended 30 June 2022 recorded fluctuations between -90% and 17%, -46% and -70%, and -75% and 17%, respectively, as compared to the six months ended 30 June 2021.

Due to the stringent lockdown measures in certain regions in Mainland China since March 2022 and the adjustments in Mainland China property market, the sluggish economy has led to the continuous weak demand for paint and coating products in Mainland China, especially in (i) the real estate industry; (ii) the manufacturing industry; (iii) the retail business of decorating paint and coating products; and (iv) the sales of the furniture paint and coating products.

For the real estate industry in Mainland China, the cumulative construction area of construction-in-progress projects decreased by 2.8% in the first half of 2022, as compared to an increase of 10.2% in the first half of 2021. Furthermore, the cumulative completion area decreased by 21.5% in the first half of 2022, as compared to an increase of 25.7% in the first half of 2021. As a result of such downturn and the delayed completion of new residential and commercial property projects, the Group's revenue generated from the customers in the construction industry and from property and infrastructure projects in Mainland China significantly decreased by 39.7% from HK$172.86 million for the six months ended 30 June 2021 to HK$104.19 million for the six months ended 30 June 2022.

As to the manufacturing industry in Mainland China, the average capacity utilisation rate in the first half of 2022 decreased by 2.5%, as compared to a growth of 6.8% in the first half of 2021. In particular, the average capacity utilisation rate of the automotive sector and the electrical machinery and equipment manufacturing sector decreased by 5.5% and 4.8%, respectively, in the first half of 2022, as compared to an increase of 9.4% and 7.7%, respectively, in the first half of 2021. Nevertheless, the Group recorded an increase in the amount of revenue generated from other industrial manufacturers, and therefore the overall revenue generated from industrial manufacturers maintained at a similar level as the six months ended 30 June 2021.

The retail sales of construction and decorative paint and coating products in the first half of 2022 decreased by 2.9%, as compared to an increase of 32.9% in the first half of 2021. Retail sales of paint and coating products for furniture goods, including furniture manufacturing purpose, decreased by 9.0% in the first half of 2022, as compared to an increase of 30.0% in the first half of 2021. Crude oil prices remained at the high price level in the first half of 2022. Meanwhile, several other paint and coating manufacturers have formulated aggressive pricing strategies by offering deep-discount sales to attract wholesale distributors and retail distributors in Mainland China and Hong Kong. In March 2022, the China National Coatings Industry Association issued the first profit warning for Mainland China's paint industry in 2022, urging companies in the industry to monitor the operating conditions, such as revenue and profit, and adjust business strategies based on market changes and fluctuations in the upstream supply and prices of raw materials. In addition to the lockdowns in certain regions in Mainland China, the Group also faced with the spike in prices of raw materials and fierce market competition. As a result, the Group's revenue from wholesale distributors and retail distributors in Mainland China decreased by 23.5% for the six months ended 30 June 2022, as compared to the six months ended 30 June 2021.

In Hong Kong's real estate market, the number of sale and purchase agreements for residential and non-residential premises decreased by 34.8% from 50,336 units to 32,828 units in the first half of 2022, as compared to an increase of 53.7% in the first half of 2021.

Overall, the Group's sales of paint and coating products to customers for the six months ended 30 June 2022 decreased by 23.2%, as compared to the six months ended 30 June 2021. This was attributable to a 39.3% decrease in the sales revenue generated from customers of construction and renovation contractors for property and infrastructure projects, stable sales revenue generated from customers of industrial manufacturers and a 16.2% decrease in the sales revenue generated from customers of wholesale distributors and retail distributors.

China started to experience a moderate inflation rate alongside its slow economies. In the first half of 2022, the producer price index in Mainland China was in the range between 6.1% and 9.1%. The inflation rate, however, did not reflect a significant increase in prices of key raw materials used in manufacturing of the paint and coating products in Mainland China. Affected by the conflict between Russia and Ukraine, the average crude oil prices in the first half of 2022 increased by 66% from US$67 per barrel to US$102 per barrel, as compared to the first half of 2021. In addition, a 6.0% decrease in the volume of the crude oil processing in Mainland China in the first half of 2022 was also one of the reasons for the significant increase in prices of key raw materials used in the manufacturing of the paint and coating products in Mainland China.

According to the NBSC's information on industrial producers' ex-factory price index, the increase in the prices of overall raw chemical products was in the range between 16.7% and 18.2%, while the increase in the prices amongst the manufacturers (including paint and coating products) was in the range between 4.9% and 7.0%. The significant increase was driven by the rise in prices of chemical products, such as titanium dioxide, Xylene and Toluene, due to the sharp increases in crude oil prices and the tight supply of raw materials. In the first half of 2022, despite multiple attempts in adjusting the selling prices of paint and coating products of some paint and coating manufacturers in Mainland China, the gross profit margin of paint and coating manufacturers in Mainland China continued to decrease, as such price adjustments were less than the increases in the raw materials costs as mentioned above. They could merely adjust upwards its selling prices of selected products and was unable to completely transfer the increased cost of raw materials to its customers. Under this challenging market situations, the Group recorded a 23.2% decrease in revenue, resulting in a significant decrease in the gross profit in the amount of HK$21.41 million, and 2.7 percent points decrease in gross profit margin, resulting in a decrease in gross profit in the amount of HK$8.42 million for the six months ended 30 June 2022, as compared to the six months ended 30 June 2021. It should be noted, however, that there have been continuous improvements in the gross profit margin since the third quarter of 2021 following the implementation of the business revamp measures and initiatives by the management of the Group, which was in the range between 15.5% and 18.4% for the third and fourth quarters of 2021, respectively, and 19.9% and 20.3% for the first and second quarters of 2022, respectively.

REVIEW OF OPERATIONS

The COVID-19 pandemic has adversely affected Hong Kong since February 2022, with the peak of infection cases recorded during the period between February and March 2022. Meanwhile, the Hong Kong government has implemented strict social distancing and quarantine measures, which have effectively slowed down the spread of the COVID-19 since April 2022 and reduced the number of infections in Hong Kong to a low level. In addition, the Chinese government has reported that there were some infected cases in Southern China and Eastern China and the local governments have quickly rolled out a large-scale COVID-19 testing in the cities, where the infections expanded rapidly, with social distancing and lockdowns measures imposed.

Similar as previous years, the business activities of the Group have been affected by the stringent measures against COVID-19. On the other hand, the demand for the Group's paint and coating products was also subject to seasonal effects of different manufacturing and construction industries. The sluggish real property market in Mainland China and the delayed completion of new residential and commercial property projects were the other reasons for the decrease in the Group's revenue for the six months ended 30 June 2022. Consequently, the Group recorded a 23.2% decrease in revenue generated from Mainland China and Hong Kong for the six months ended 30 June 2022, as compared to the six months ended 30 June 2021. Furthermore, following the 66% increase in the average price of crude oil per barrel and shortage of raw materials, the price of raw materials rose significantly. As a result, the Group recorded a 32.3% decrease in gross profit for the six months ended 30 June 2022, and the loss attributable to the parent company was increased by 200.1% to HK$50.38 million, as compared to a loss of HK$16.79 million for the six months ended 30 June 2021.

Revenue

During the six months ended 30 June 2022, the Group's revenue decreased to HK$310.15 million, as compared to HK$403.80 million for the six months ended 30 June 2021. The table below sets forth an analysis of the Group's revenue for its principal products during the six months ended 30 June 2022 and 2021:

	Six months ended 30 June				
	2022		2021		% of net
	HK$'000	**%**	HK$'000	%	change
Industrial paint and coating products	**116,149**	**37.4**	148,401	36.8	–21.7
Architectural paint and coating products	**134,546**	**43.4**	191,332	47.4	–29.7
General paint and coating and ancillary products [(1)]	**59,457**	**19.2**	64,064	15.8	-7.2
	310,152	**100.0**	403,797	100.0	–23.2

(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

The Group's revenue generated from the construction and renovation contractors for property and infrastructure projects in Mainland China significantly decreased by 39.7% to HK$104.19 million for the six months ended 30 June 2022, as compared to the six months ended 30 June 2021. According to the NBSC's information on the real estate industry in Mainland China in the first half of 2022, there were a 2.8% decrease in the cumulative construction area of construction-in-progress and a 21.5% decrease in the cumulative completion area, as compared to the first half of 2021. Reasons for the delay in new residential and commercial property projects include (i) the negative impact on the recurrent COVID-19 waves in Mainland China, which led to lockdown in several regions, in particular, Shanghai, affecting the logistics arrangement and transportation; (ii) property developers in Mainland China have experienced a downturn in the property market due to the ongoing deleveraging by the Chinese government; and (iii) the rising price of construction materials due to the shortage of supply. In the first half of 2022, the pre-sale area of several leading real estate developers in Mainland China recorded a significant decrease between 32% and 59%. It is inevitable that revenue generated by construction and renovation contractors on property and infrastructure projects in Mainland China will decrease as the market environment changes and the Group strives to enhance the brand and network competitiveness in order to expand the customer base.

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

For the six months ended 30 June 2022, the Group recorded a 23.5% decrease in revenue generated from wholesale distributors and retail distributors in Mainland China, as compared to the six months ended 30 June 2021. It was primarily due to the lockdowns in certain regions in Mainland China during the six months ended 30 June 2022. Multiple cases of COVID-19 were detected in Shenzhen in March 2022 and it was immediately placed under a strict lockdown, with public transportation suspended and mass COVID-19 polymerase chain reaction (PCR) tests conducted. Since then, COVID-19 has been detected in several regions in Southern China (especially Guangzhou and Dongguan), Eastern China and Central China, and the Chinese government has taken similar strict measures against these places. By the end of June 2022, Shanghai was still under a strict lockdown, which started in April 2022. Furthermore, the intense competition of the paint and coating industry in Mainland China was another factor causing such significant decrease in revenue.

Stable in revenue generated from the industrial manufacturers in Mainland China

For the six months ended 30 June 2022, the Group recorded a stable revenue generated from industrial manufacturers in Mainland China as compared with the six months ended 30 June 2021.

According to the information from NBSC, the average capacity utilisation rate in the first half of 2022 decreased by 2.5%, as compared to a growth of 6.8% in the first half of 2021. In particular, the average capacity utilisation rate of the automotive sector and the electrical machinery and equipment manufacturing sector decreased by 5.5% and 4.8%, respectively, during the first half of 2022, as compared to an increase of 9.4% and 7.7%, respectively, during the first half of 2021. Nevertheless, the Group recorded an increase in revenue generated from other industrial manufacturers, and therefore the overall revenue generated from industrial manufacturers maintained at a similar level as the six months ended 30 June 2021.

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

Since Hong Kong recorded the highest number of COVID-19 cases in February and March 2022, the Hong Kong government has tightened the social distancing measures from February to April 2022. In addition, the number of sale and purchase agreements of residential and non-residential building units in the Hong Kong real estate market decreased by 34.8% from 50,336 units to 32,828 units in the first half of 2022, as compared to an increase of 53.7% in the first half of 2021.

Despite the difficult operating environment in Hong Kong, the Group's revenue from wholesale distributors and retail distributors in Hong Kong for the six months ended 30 June 2022 increased by 12.3%, as compared to the six months ended 30 June 2021. However, in terms of the total revenue generated from Hong Kong as a whole, the Group only increased by 5.2% as compared to the six months ended 30 June 2021, mainly due to a decrease in revenue generated from renovation contractors in Hong Kong of HK$1.71 million for the six months ended 30 June 2022.

Geographical distribution of revenue

The Group's revenue generated from Mainland China and Hong Kong accounted for 88.1% and 11.9%, respectively, for the six months ended 30 June 2022, as compared to 91.3% and 8.7%, respectively, for the six months ended 30 June 2021. Southern China, Central China and Eastern China accounted for most of the Group's revenue in Mainland China. In aggregate, these regions contributed 81.5% of the Group's total revenue, as compared to 82.3% for the six months ended 30 June 2021.

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

For the six months ended 30 June 2022, the Group's revenue generated from construction and renovation contractors for property and infrastructure projects in Central China and Eastern China decreased by 60.3% to HK$27.06 million and 58.8% to HK$18.44 million, respectively, as compared to HK$68.17 million and HK$44.79 million, respectively, for the six months ended 30 June 2021. Such significant decrease was primarily due to the sluggish real property market in Mainland China and the delayed completion of new residential and commercial property projects. According to the NBSC's information for the real estate industry in Mainland China, the cumulative completion area in Eastern China and Central China in the first half of 2022 significantly decreased by between 12% and 60%, and 18% and 31%, respectively, as compared to the first half of 2021.

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

Due to the increased COVID-19 infected cases in Mainland China in the first half of 2022, the Group's revenue generated from wholesale distributors and retail distributors in Southern China and Eastern China for the six months ended 30 June 2022 significantly decreased by 25.8% to HK$54.90 million and 10.5% to HK$20.52 million, respectively, as compared to HK$73.97 million and HK$22.94 million, respectively, for the six months ended 30 June 2021.

Cost of Sales

Cost of raw materials

Raw materials used by the Group include resins, solvents and other materials, of which resins and solvents accounted for a substantial portion of the total cost of raw materials. Prices of such raw materials are directly or indirectly affected by crude oil prices. Given that crude oil prices recorded a 66% increase per barrel, with its highest price reached US$130 per barrel since March 2022, raw materials prices surged. In addition, the shortage in supply of raw materials caused further increases in raw materials prices. For the six months ended 30 June 2022, the percentage of the cost of raw materials to revenue of the Group increased by 1.0% from 67.9% to 68.6%.

Direct and indirect labour cost

During the six months ended 30 June 2022, direct and indirect labour cost significantly decreased by 6.0%, which was primarily because of the significant decreases of the overall sales revenue.

Depreciation and production overhead

Depreciation and production overhead cost decreased by 7.0% to HK$15.23 million for the six months ended 30 June 2022, as compared to the six months ended 30 June 2021. The production overhead costs decreased by 28.9%, primarily due to the decrease in revenue and the reduction in other consumption. However, such decrease was offset by a 27.6% increase in depreciation, mainly due to the additional depreciation arising from the newly built facilities of the Group's production plant in Zhongshan (the "Zhongshan Production Plant") in the second half of 2021.

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

As mentioned above, the paint and coating industry has been under pressure from high raw materials costs due to high international crude oil prices and a shortage in refining capacity, resulting in insufficient global supply of raw materials. According to the NBSC, crude oil processing volume in Mainland China decreased by 6.0%, which was one of the main reasons for the surge in prices of raw materials used in manufacturing of the paint and coating industry. During the six months ended 30 June 2022, despite multiple attempts by the Group in adjusting the selling prices of paint and coating products, such price adjustments were unable to offset the rise in raw materials costs. The Group recorded a 23.2% decrease in revenue and a 2.7 percent points decrease in gross profit margin to 20.2% for the six months ended 30 June 2022. The Group's loss attributable to its owners of the parent company increased to HK$50.38 million for the six months ended 30 June 2022 from HK$16.79 million for the six months ended 30 June 2021.

Other Income and Gains, Net

The amount of other income and gains, net for the six months ended 30 June 2022 increased by 5.4%, as compared to the six months ended 30 June 2021. Such increase was primarily due to (i) an increase in gain on foreign exchange difference, net of HK$1.37 million; (ii) one-off transaction of subsidies granted from the Employment Support Scheme under the Anti-epidemic Fund of the Hong Kong government of HK$0.73 million; (iii) an increase in fair value gain of investment properties of HK$0.70 million; and (iv) an increase in the bank interest income of HK$0.43 million for the six months ended 30 June 2022. However, such increase was primarily offset by (i) a decrease in government grants of HK$1.71 million; and (ii) a decrease in the rental income received from investment properties of HK$0.68 million for the six months ended 30 June 2022.

Selling and Distribution Expenses and Administrative Expenses

For the six months ended 30 June 2022, the selling and distribution expenses significantly decreased by 10.8% to HK$46.92 million. Such decrease was primarily due to (i) a 18.5% decrease in transportation costs alongside a 23.2% decrease in the sales revenue; (ii) a 18.4% decrease in the advertising and promotion expenses as it was largely reduced for the six months ended 30 June 2022; and (iii) a 25.4% decrease in travelling costs as it was largely reduced for the six months ended 30 June 2022 due to the then restrictions on business and social activities. In particular, the ratio of transportation costs to revenue increased by 6.1% to 4.52% during the six months ended 30 June 2022 from 4.26% in the first half of 2021, which was primarily due to the significant increase in the diesel price in Mainland China during the period. According to the announcement on the adjustment on the domestic refined oil prices issued by the National Development and Reform Commission, the average monthly diesel prices recorded a year-to-year increase of 30% during the six months ended 30 June 2022.

Administration expenses increased by 7.1% to HK$58.43 million for the six months ended 30 June 2022, as compared to the six months ended 30 June 2021. Such increase was primarily due to the incurrence of share option expenses of HK$4.30 million which were non-cash expenses for the six months ended 30 June 2022. Excluding the share option expenses, the administration expenses slightly decreased by 0.8%, as compared to the six months ended 30 June 2021.

Other Expenses, net

For the six months ended 30 June 2022, the net amount of the other expenses mainly comprised of staff termination payments, local taxes and levies and stamp duties and provision for the impairment of trade receivables, amounting to HK$6.66 million, HK$5.52 million and HK$0.52 million, respectively. The amount of other expenses, net for the six months ended 30 June 2022 increased by 83.6% to HK$12.74 million from HK$6.94 million for the six months ended 30 June 2021. Such increase was primarily due to the continual integration of the production facilities in Mainland China and to streamline the workforces and personnel. As at 30 June 2022, the number of staff members of the Group decreased by 14.6% to 673, as compared to 788 staff members as at 30 June 2021.

FINANCIAL REVIEW

Liquidity and Indebtedness

The Group's business operation is generally financed by its internal resources and bank borrowings. The total cash and cash equivalents amounted to HK$111.14 million as at 30 June 2022, as compared to HK$196.09 million as at 31 December 2021. Such decrease was mainly due to the change of working capital. The total cash and bank balances, including pledged deposits, amounted to HK$146.03 million as at 30 June 2022, as compared to HK$238.40 million as at 31 December 2021. Bank borrowings amounted to HK$232.54 million as at 30 June 2022, as compared to HK$216.08 million as at 31 December 2021. The Group's bank borrowings mainly bear interest at floating rates. As at 30 June 2022, the Group's total bank borrowings amounted to HK$232.54 million (100.0%) (31 December 2021: HK$216.08 million (100.0%)) and were payable within one year or on demand.

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

Gearing ratio of the Group, expressed as a percentage of total bank borrowings to shareholders' funds, was 51.4% as at 30 June 2022, as compared to 40.8% as at 31 December 2021. Liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.18 times as at 30 June 2022, as compared to 1.26 times as at 31 December 2021.

For the six months ended 30 June 2022, the inventory turnover days[1] were 48 days, which was slightly different from that of 44 days for the year ended 31 December 2021. The trade and bills receivables turnover days[2] increased to 233 days for the six months ended 30 June 2022 from 192 days for the year ended 31 December 2021. The longer trade receivables turnover days for the six months ended 30 June 2022 was primarily due to the 23.2% decrease in the revenue and the significant increase in the outstanding amounts which were past due over six months.

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 2021: 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 2021: 365 days).

Equity and Net Asset Value

Shareholders' funds of the Company as at 30 June 2022 amounted to HK$452.77 million, as compared to HK$529.58 million as at 31 December 2021. Net asset value per share as at 30 June 2022 amounted to HK$0.46, as compared to HK$0.53 as at 31 December 2021. 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 2022, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was HK$232.54 million, as compared to HK$216.08 million as at 31 December 2021.

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 said performance bonds were entered into between the Group and the bank. In general, in the event that the quality of the products supplied by the Group to its customers is in default and the customer submits a claim to the bank, the bank may deduct the amount of the said claim from the Group's pledged deposits of HK$1.87 million as at 30 June 2022 (31 December 2021: HK$1.35 million).

Pledge of Assets

As at 30 June 2022, certain property, plant and equipment, right-of-use assets and cash deposits with an aggregate net book value of HK$56.70 million, as compared to HK$49.04 million as at 31 December 2021, were pledged to financial institutions as collaterals for bills payables, bank borrowings, performance bonds and lease liabilities. In addition, as at 30 June 2022 and 31 December 2021, a wholly-owned subsidiary of the Group pledged its shares to secure general banking facilities granted to the Group.

STAFF

As at 30 June 2022, the Group employed a total of 673 employees, as compared to 788 employees as at 30 June 2021. Staff costs, excluding directors' emoluments, amounted to HK$66.24 million (including share option expenses of HK$2.69 million) for the six months ended 30 June 2022, as compared to HK$64.45 million for the six months ended 30 June 2021. The Group has a comprehensive and competitive staff remuneration and benefits system which is based on the performance of individual employee.

BUSINESS PLANS AND OUTLOOK

The COVID-19 pandemic may continue to have an adverse and long-term impact on the economic and social conditions in Mainland China and Hong Kong, which in turn may disrupt the Group's business operations. If there is another city closure arrangement in Southern China, the Group will have the flexibility in adjusting the production plan for the paint and coating products amongst different production plants and selected original equipment manufacturers (OEMs). The Group has also increased inventories of work-in-progress, which can be carried on without restrictions in the event that the next wave of the COVID-19 pandemic hits again. In addition, the continued development of tensions between China and the United States, as well as the instability caused by the conflicts between Russia and Ukraine have made the global economic and political situation still unpredictable and volatile. Although the Directors believe that it will not have a long-term negative impact on the global economy, it is expected to have a significant impact on the overall business environment in Mainland China and Hong Kong in the short term. Although the Group's gross profit margin has continued to improve since the third quarter of 2021, the Group continues to optimise its various business revamp measures and initiatives so as to improve its business operation and reduce costs. These business initiatives include the following:

1. **Pricing strategies**

   To cope with the inflationary environment in Mainland China, the Group would regularly review the composition costs of its paint and coating products in relation to the raw materials, effectively adjust the selling price of the Group's paint and coating products in order to maintain the gross profit margin of the Group at a certain level and adjust the discount and rebate structures to customers in order to improve the profit margin of the Group's leading products.

2. **Establishing a projected raw materials level**

   In light of the increasing raw materials prices, the Group will no longer maintain high turnover rates in its raw materials. Subject to the implementation of the pricing strategies, the Group will establish a projected level of each of the raw materials when comparing the composition costs of the Group's paint and coating products. The Group expects that its gross profit margin can then be managed within low volatility. This may, however, result in an additional finance cost or an administrative expense to such advance purchases.

3. **Standardisation in packaging**

The packaging materials are one of the major expenses of the Group. During the period, the Group continued to review the low turnover of packages, cut such packages and maintain on fewer types of high turnover packages. There are some benefits from standardisation in packaging. Starting with procurement, there are quantity discounts from packaging suppliers. In addition, there are efficiencies and cost-savings in transportation, storage and handling throughout trade logistics and goods transport.

4. **Streamline the production lines and production plants of the Group**

Several product lines, which served customers of industrial manufacturers in Southern China, Central China and Eastern China, were under constant review by the Group for their gross profit margins. If the gross profit margins were deteriorating, the product lines would be terminated. These will help to release the production capacity for products with high profit margins in Southern China and such review will continue during the second half of 2022 for all industrial manufacturers. The Group will also review the locations as well as the production efficiency of each of its existing production plants. If the OEM can satisfy the production needs of the Group without compromising the product quality, the Directors believe that the OEM approach should be adopted and the existing production plants, including its usage, should be re-examined. As part of the Group's ongoing efforts to enhance shareholder value in the long run and long-term relationships with customers, the Group will continue to rationalise the capability of its production facilities for paint and coating products for the purpose of ensuring a reliable, adequate and high-quality supply at the most efficient manner.

Looking forward to the second half of 2022, the Chinese government will continue to focus on and promote a stable economic growth. In August 2022, the People's Bank of China ("PBOC") announced that the one-year loan prime rate ("LPR") and five-year LPR reduced to 3.65% (December 2021: 3.80%) and 4.30% (December 2021: 4.65%), respectively, in response to the impact of Mainland China's economic slowdown. In addition, the PBOC has recently announced that it would adopt a less accommodative monetary policy in the second half of 2022 to prevent domestic inflationary pressures from rising. Although the Group's gross profit margin has improved on a quarterly basis since the last quarter of 2021, the Group will remain vigilant and prepare for any further industry-wide deterioration in the paint and coating industry in Mainland China and Hong Kong.

In addition, in order to maintain the Group's gross profit margin in Mainland China and Hong Kong, the Group has formulated a series of business development plan of launching new paint products, in particular, with fire resistance and antiviral technology, to the market in the second half of 2022. The range of paint and coating products will be further streamlined and the production and sale of several less popular paint and coating products will be temporarily suspended for two years. The Group will continue the cooperation with selected paint and coating manufacturers on an OEM basis and will continue to look for business and acquisition opportunities that can promote the development of the paint and coating business in Mainland China. Given the continuous integration and upgrading of production facilities in the Guangdong-Hong Kong-Macao Greater Bay Area, the Directors believe that the Group is in a good position to seize the opportunities that may arise during this unique challenging period.

Latest Progress in the New Product Research and Development Centre in Mainland China

In April 2022, the Group identified the office premises in Shenzhen for setting up a new product research and development centre (the "New R&D Centre"). The completion of the acquisition of this office premises was in May 2022 and the total acquisition cost of the office premises was HK$17.1 million. The Group expects that the commencement of business operation of the New R&D Centre would be in September 2022.

The establishment of the New R&D Centre is in line with the strategy of the Group to focus on encouraging and promoting Shenzhen as an important base for high-tech research, development and manufacturing in Southern China and more importantly, to employ high caliber candidates for the support of further development of paint and coating products in Southern China.

USE OF NET PROCEEDS FROM THE SHARE OFFER

The Group's business objectives and planned use of net proceeds as disclosed in the prospectus of the Company dated 19 June 2017 (the "Prospectus") were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus and subject to the risk factors as stated in the Prospectus. The actual use of net proceeds was based on the actual market situation.

The Company listed its shares on the Stock Exchange on 10 July 2017 (the "Listing"). Net proceeds from the Listing were HK$168.2 million (after deduction of the underwriting commission and relevant expenses), which are intended to be applied in the manner as disclosed in the Prospectus and the Company will review the use of net proceeds in view of the market situation. On 29 July 2019, the Board resolved to change the use of the remaining unutilised proceeds from the Global Offering (as defined in the Prospectus) (the "Reallocation"). Details of the Reallocation were set out in the announcement of the Company dated 29 July 2019. The amount of the unutilised net proceeds from the Global Offering of HK$17.1 million was fully utilised as at 30 June 2022. The following table sets forth the status of the use of net proceeds from the Global Offering:

	Use of Proceeds	Use of net proceeds from the Global Offering prior to the Reallocation HK$ million	The Reallocation HK$ million	Use of net proceeds subsequent to the Reallocation HK$ million	Amount unutilised as at 31 December 2021 HK$ million	Amount utilised during the six months ended 30 June 2022 HK$ million	Amount unutilised as at 30 June 2022 HK$ million	Actual timeline for utilising the remaining net proceeds from the Listing
(1)	Construction of the production plant in Xinfeng	78.5	(52.2)	26.3	–	–	–	Fully utilised as of 31 December 2019
(2)	Repayment of the bank loans	19.1	–	19.1	–	–	–	Fully utilised as of 31 December 2017
(3)	Acquisitions of business or production assets	42.0	–	42.0	–	–	–	Fully utilised as of 31 December 2018
(4)	Sales and market campaigns and activities	28.6	–	28.6	–	–	–	Fully utilised as of 31 December 2018
(5)	Construction of production facilities for water-based paint and coating products in the Zhongshan Production Plant	–	32.2	32.2	–	–	–	Fully utilised as of 31 December 2020
(6)	Product research and development centre	–	20.0	20.0	17.1	(17.1)	–	Fully utilised as of 30 June 2022
		168.2	–	168.2	17.1	(17.1)	–	

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

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

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 2022, 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.

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 2022.

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

Hong Kong, 30 August 2022

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. Lam Ting Ball, Paul and Mr. Chong Chi Kwan as non-executive Directors; and Ms. Chiu Kam Hing, Kathy, Mr. Chua Joo Bin and Mr. Xia Jun as independent non-executive Directors.