

INTERIM REPORT
2019



(Incorporated in the Cayman Islands with limited liability)

Stock code: 1932

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Corporate Information

BOARD OF DIRECTORS

Non-executive Director and Chairman

Lam Ting Ball, Paul

Executive Directors

Tsui Ho Chuen, Philip (*Managing Director*)

Li Guangzhong (*Sales Director*)

Wong Anders (*Finance Director*)

Non-executive Director

Chong Chi Kwan

Independent Non-executive Directors

Chiu Kam Hing, Kathy

Chua Joo Bin

Xia Jun

AUDIT COMMITTEE

Chiu Kam Hing, Kathy (*Chairlady*)

Chua Joo Bin

Chong Chi Kwan

REMUNERATION COMMITTEE

Chiu Kam Hing, Kathy (*Chairlady*)

Chong Chi Kwan

Xia Jun

NOMINATION COMMITTEE

Chiu Kam Hing, Kathy (*Chairlady*)

Tsui Ho Chuen, Philip

Xia Jun

COMPANY SECRETARY

Fok Pik Yi, Carol

AUDITORS

Ernst & Young

22nd Floor, CITIC Tower, 1 Tim Mei Avenue

Central, Hong Kong

COMPLIANCE ADVISER

Innovax Capital Limited

Room 2002, 20th Floor, Chinachem Century Tower

178 Gloucester Road, Wanchai, Hong Kong

SHARE REGISTRARS

Hong Kong

Tricor Investor Services Limited

Level 54, Hopewell Centre

183 Queen's Road East, Hong Kong

Cayman Islands

Conyers Trust Company (Cayman) Limited

Cricket Square, Hutchins Drive, PO Box 2681

Grand Cayman, KY1-1111, Cayman Islands

PRINCIPAL BANKERS

Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited

DBS Bank (Hong Kong) Limited

PRC

HSBC Bank (China) Company Limited

Shenzhen Branch

REGISTERED OFFICE

Cricket Square, Hutchins Drive, PO Box 2681

Grand Cayman, KY1-1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31st Floor, CNT Tower, 338 Hennessy Road

Wanchai, Hong Kong

WEBSITE

www.cpmgroup.com.hk

Interim Results

The board (the “Board”) of directors (the “Directors”) of CPM Group Limited (the “Company”) presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2019 together with comparative amounts for the corresponding period in 2018. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2019

	Notes	Six months ended 30 June	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
REVENUE	3	305,877	251,491
Cost of sales		(226,424)	(194,689)
Gross profit		79,453	56,802
Other income and gains	3	3,442	4,136
Selling and distribution expenses		(64,711)	(75,949)
Administrative expenses		(54,766)	(51,218)
Other expenses, net		(6,755)	(5,227)
Finance costs	4	(4,206)	(1,748)
LOSS BEFORE TAX	5	(47,543)	(73,204)
Income tax credit/(expense)	6	(470)	780
LOSS FOR THE PERIOD		(48,013)	(72,424)
ATTRIBUTABLE TO:			
Owners of the parent		(48,045)	(72,101)
Non-controlling interest		32	(323)
		(48,013)	(72,424)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic and diluted		HK (4.80) cents	HK (7.21) cents

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
LOSS FOR THE PERIOD	(48,013)	(72,424)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(416)	(7,968)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD	(416)	(7,968)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(48,429)	(80,392)
ATTRIBUTABLE TO:		
Owners of the parent	(48,456)	(80,028)
Non-controlling interest	27	(364)
	(48,429)	(80,392)

Condensed Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	218,182	220,890
Investment property	10	15,695	15,713
Right-of-use assets		90,980	–
Prepaid land lease payments		–	85,571
Intangible assets		115	805
Equity investment designated at fair value through other comprehensive income		300	300
Deposits for purchases of properties, plant and equipment		10,379	10,675
Net pension scheme assets		3,687	3,687
Deferred tax assets		19,067	19,008
Total non-current assets		358,405	356,649
CURRENT ASSETS			
Inventories		61,105	56,682
Trade and bills receivables	11	358,765	424,689
Prepayments, deposits and other receivables		66,064	70,878
Cash and cash equivalents		146,046	160,280
Total current assets		631,980	712,529
CURRENT LIABILITIES			
Trade payables	12	170,814	184,253
Other payables and accruals		54,073	66,299
Due to the Remaining Group		68	68
Lease liabilities		2,629	–
Interest-bearing bank and other borrowings		213,675	219,779
Tax payable		11,546	11,531
Total current liabilities		452,805	481,930
NET CURRENT ASSETS		179,175	230,599
TOTAL ASSETS LESS CURRENT LIABILITIES		537,580	587,248

Condensed Consolidated Statement of Financial Position

As at 30 June 2019

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
NON-CURRENT LIABILITIES		
Lease liabilities	1,261	–
Interest-bearing bank and other borrowings	–	646
Deferred tax liabilities	10,677	12,383
Deferred income	1,660	1,808
	<hr/>	<hr/>
Total non-current liabilities	13,598	14,837
	<hr/>	<hr/>
Net assets	523,982	572,411
	<hr/> <hr/>	<hr/> <hr/>
EQUITY		
Equity attributable to owners of the parent		
Issued capital	100,000	100,000
Reserves	420,932	469,388
	<hr/>	<hr/>
	520,932	569,388
Non-controlling interest	3,050	3,023
	<hr/>	<hr/>
Total equity	523,982	572,411
	<hr/> <hr/>	<hr/> <hr/>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Attributable to owners of the parent													Non-controlling interest (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000													
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Merger reserve (Unaudited) HK\$'000	Capital contribution [^] (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Fair value reserve (non-recycling) (Unaudited) HK\$'000	Leasehold land and building revaluation reserve (Unaudited) HK\$'000	General reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Reserve funds ^{**} (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000															
At 1 January 2019	100,000	94,614	(15,017)	2,630	(18,616)	(500)	11,291	10,485	(22,363)	28,866	377,998	569,388	3,023	572,411														
Profit/(Loss) for the period	-	-	-	-	-	-	-	-	-	-	(48,045)	(48,045)	32	(48,013)														
Other comprehensive loss for the period:																												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(411)	-	-	(411)	(5)	(416)														
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	-	(411)	-	(48,045)	(48,456)	27	(48,429)														
At 30 June 2019	<u>100,000</u>	<u>94,614[^]</u>	<u>(15,017)[^]</u>	<u>2,630[^]</u>	<u>(18,616)[^]</u>	<u>(500)[^]</u>	<u>11,291[^]</u>	<u>10,485[^]</u>	<u>(22,774)[^]</u>	<u>28,866[^]</u>	<u>329,953[^]</u>	<u>520,932</u>	<u>3,050</u>	<u>523,982</u>														
At 1 January 2018	100,000	94,614	(15,017)	2,630	(18,616)	(500)	6,489	10,485	6,982	28,866	512,664	728,597	3,566	732,163														
Loss for the period	-	-	-	-	-	-	-	-	-	-	(72,101)	(72,101)	(323)	(72,424)														
Other comprehensive loss for the period:																												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(7,927)	-	-	(7,927)	(41)	(7,968)														
Total comprehensive loss for the period	-	-	-	-	-	-	-	-	(7,927)	-	(72,101)	(80,028)	(364)	(80,392)														
At 30 June 2018	<u>100,000</u>	<u>94,614[^]</u>	<u>(15,017)[^]</u>	<u>2,630[^]</u>	<u>(18,616)[^]</u>	<u>(500)[^]</u>	<u>6,489[^]</u>	<u>10,485[^]</u>	<u>(945)[^]</u>	<u>28,866[^]</u>	<u>440,563[^]</u>	<u>648,569</u>	<u>3,202</u>	<u>651,771</u>														

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

[#] These reserve accounts comprise the consolidated reserves of HK\$420,932,000 (30 June 2018: HK\$548,569,000) in the condensed consolidated statement of financial position.

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (unaudited) HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss before working capital changes	(29,039)	(62,016)
Increase in inventories	(4,551)	(5,391)
Decrease in trade and bills receivables	65,801	130,926
Decrease/(increase) in prepayments, deposits and other receivables	2,621	(32,715)
Decrease in trade and bills payables	(13,470)	(73,886)
Decrease in other payables and accruals	(12,547)	(59,882)
Exchange realignment	24	689
	<hr/>	<hr/>
Cash generated from/(used in) operations	8,839	(102,275)
Interest paid	(3,848)	(1,648)
Interest element of lease payments/finance lease rental payments	(129)	(32)
Withholding tax paid	(1,706)	–
Overseas taxes paid	(541)	(4,048)
	<hr/>	<hr/>
Net cash flows generated from/(used in) operating activities	2,615	(108,003)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(1,188)	(12,230)
Proceeds from disposal of items of property, plant and equipment	53	65
Deposits paid for acquisition of subsidiaries	–	(76,607)
Interest received	334	181
Deposits paid for purchases of property, plant and equipment	(8,572)	(12,888)
	<hr/>	<hr/>
Net cash flows used in investing activities	(9,373)	(101,479)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	98,473	159,246
Repayment of bank loans	(104,488)	(70,154)
Decrease in amounts due to Remaining Group	–	(3,097)
Principal portion of lease payments/finance lease rental payments	(1,333)	(191)
	<hr/>	<hr/>
Net cash flows generated from/(used in) financing activities	(7,348)	85,804
NET DECREASE IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of period	160,280	247,258
Effect of foreign exchange rate changes, net	(128)	(1,017)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	146,046	122,563
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	146,046	122,563
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Cash and cash equivalents as stated in the condensed consolidated statement of financial position and the condensed consolidated statement of cash flows	146,046	122,563

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 2018.

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 2018, except for the adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) effective as of 1 January 2019.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements</i> <i>2015–2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases*, Amendments to HKAS 28 *Long-term Interests in Associates and Joint Ventures* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group’s unaudited condensed consolidated interim financial statements. The nature and impact of the new and revised HKFRSs are described below:

(a) Adoption of HKFRS 16

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

Notes to the Condensed Consolidated Financial Statements

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (a) Adoption of HKFRS 16 (continued)

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of HK\$1,123,000 that were reclassified from property, plant and equipment.

Notes to the Condensed Consolidated Financial Statements

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (a) Adoption of HKFRS 16 (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) HK\$'000 (Unaudited)
Assets	
Increase in right-of-use assets	93,656
Decrease in property, plant and equipment	(1,123)
Decrease in prepaid land lease payments	(85,571)
Decrease in prepayments, deposits and other receivables	(2,889)
	<hr/>
Increase in total assets	<u>4,073</u>
Liabilities	
Increase in lease liabilities	5,118
Decrease in interest-bearing bank and other borrowings	(1,045)
	<hr/>
Increase in total liabilities	<u>4,073</u>

Notes to the Condensed Consolidated Financial Statements

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (a) Adoption of HKFRS 16 (continued)

As a lessee – Leases previously classified as operating leases (continued)

Impacts on transition (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating leases commitments as at 31 December 2018 is as follows:

	HK\$'000 (Unaudited)
Operating lease commitments as at 31 December 2018	5,064
Weighted average incremental borrowing rate as at 1 January 2019	2.78%
Discounted operating lease commitments as at 1 January 2019	5,002
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(4,588)
Add: Commitments relating to leases previously classified as finance leases	1,045
Payments for optional extension periods not recognised as at 31 December 2018	3,659
	<hr/>
Lease liabilities as at 1 January 2019	<u>5,118</u>

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".

Notes to the Condensed Consolidated Financial Statements

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (a) Adoption of HKFRS 16 (continued)

As a lessee – Leases previously classified as operating leases (continued)

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Amounts recognised in the unaudited interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follows:

	Right-of-use assets				Total HK\$'000	Lease liabilities HK\$'000
	Land and buildings HK\$'000	Prepaid land lease payments HK\$'000	Motor vehicle HK\$'000	Other equipment HK\$'000		
As at 1 January 2019 (unaudited)	4,073	88,460	1,082	41	93,656	5,118
Additions	224	–	–	–	224	224
Depreciation charge	(1,181)	(1,466)	(191)	(4)	(2,842)	–
Interest expense	–	–	–	–	–	129
Payments	–	–	–	–	–	(1,462)
Exchange realignment	20	(78)	–	–	(58)	(119)
As at 30 June 2019 (unaudited)	<u>3,136</u>	<u>86,916</u>	<u>891</u>	<u>37</u>	<u>90,980</u>	<u>3,890</u>

The Group recognised rental expenses from short-term leases of HK\$3,168,000 for the six months ended 30 June 2019.

Notes to the Condensed Consolidated Financial Statements

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the Group's unaudited condensed consolidated interim financial statements.
- (c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's unaudited condensed consolidated interim financial statements.

1.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these unaudited condensed consolidated interim financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

The Group is in the process of making an assessment of the impact of the new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's financial performance and financial position.

Notes to the Condensed Consolidated Financial Statements

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	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Hong Kong	40,594	20,392
Mainland China	265,283	231,099
	<u>305,877</u>	<u>251,491</u>

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

- (b) Non-current assets

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
	Hong Kong	2,207
Mainland China	333,144	330,946
	<u>335,351</u>	<u>333,654</u>

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 2019 and 2018, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

Notes to the Condensed Consolidated Financial Statements

3. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
<i>Revenue from contracts with customers</i>		
Sale of paint and coating products	305,877	251,491

Disaggregated revenue information

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Type of paint and coating products sold		
Industrial paint and coating products	123,023	111,788
Architectural paint and coating products	124,919	85,137
General paint and coating and ancillary products	57,935	54,566
	305,877	251,491
Timing of revenue recognition		
Goods transferred at a point in time	305,877	251,491

An analysis of other income and gains is as follows:

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Other income and gains		
Bank interest income	334	181
Government grants*	927	1,679
Gain on disposal of items of property, plant and equipment	14	16
Recognition of deferred income	148	158
Rental income from an investment property	581	–
Others	1,438	2,102
	3,442	4,136

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

Notes to the Condensed Consolidated Financial Statements

4. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Interest on bank loans	4,077	1,716
Interest on finance leases	–	32
Interest on lease liabilities	129	–
	<u>4,206</u>	<u>1,748</u>

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Cost of inventories sold	226,424	194,689
Depreciation of property, plant and equipment	10,279	9,495
Depreciation of right-of-use assets	2,842	–
Amortisation of prepaid land lease payments	–	274
Amortisation of intangible assets	700	–
Impairment of trade receivables*	736	–
Gain on disposal of items of property, plant and equipment*	(14)	(16)
Write-off of items of property, plant and equipment*	237	26
Foreign exchange differences, net*	468	534
	<u>468</u>	<u>534</u>

* These balances are included in "Other income and gains" for gains and "Other expenses, net" for losses in the 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 2018: 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 2018: 25%) during the period, except for 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 2018: 15%) had been applied during the period.

Notes to the Condensed Consolidated Financial Statements

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

The calculation of basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent of HK\$48,045,000 (six months ended 30 June 2018: HK\$72,101,000) and the weighted average number of ordinary shares of 1,000,000,000 (six months ended 30 June 2018: 1,000,000,000) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2019 and 2018 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these periods.

8. INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment at costs of HK\$9,347,000 (six months ended 30 June 2018: HK\$12,264,000).

Items of property, plant and equipment with an aggregate net book value of HK\$39,000 (six months ended 30 June 2018: HK\$49,000) were disposed of by the Group during the six months ended 30 June 2019.

10. INVESTMENT PROPERTY

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Carrying amount at beginning of period/year	15,713	–
Transfer from an owner-occupied property	–	11,175
Transfer from prepaid land lease payments	–	4,390
Exchange realignment	(18)	148
	<hr/> 15,695 <hr/>	<hr/> 15,713 <hr/>
Carrying amount at end of period/year		

The Group's investment property is an industrial property in Mainland China. The Directors have determined that the investment property consists of one class of asset, i.e., industrial, based on the nature, characteristics and risks of the property. The Group's investment property was revalued on 30 June 2019 based on valuation performed by BMI Appraisals Limited, an independent professionally qualified valuer, at HK\$15,695,000. The Group's finance department who reports directly to the senior management selects an external valuer to be responsible for the external valuation of the Group's property based on market knowledge, reputation and independence of the external valuer, and whether professional standards are maintained by the external valuer. Fair value of the Group's investment property is generally derived by using the investment approach. The Group's finance department has discussion with the external valuer on the valuation assumptions and valuation results when the valuation is performed for interim and annual financial reporting.

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

Notes to the Condensed Consolidated Financial Statements

10. INVESTMENT PROPERTY (continued)

Fair value hierarchy

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

Investment property held by the Group	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Range or weighted average 30 June 2019
Industrial property in Mainland China	Level 3	Income capitalisation method	Prevailing market rent (per sq.m. and per month)	RMB25
			Capitalisation rate	5.5%-6.0%

During the six months ended 30 June 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Under the investment approach, a significant increase (decrease) in the unit rental rate in isolation would result in a significant increase (decrease) in the fair value of the investment property. A significant increase (decrease) in the term yield and reversion yield in isolation would result in a significant decrease (increase) in the fair value of the investment property.

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

	Industrial property (Unaudited) HK\$'000
At 1 January 2019	15,713
Exchange realignment	(18)
At 30 June 2019	<u>15,695</u>

Notes to the Condensed Consolidated Financial Statements

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 may require. The Group maintains a defined credit policy and credit periods are usually granted ranging from one to three months to normal customers. The Group seeks to maintain strict control over its receivables 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 and reputable banks, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable 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 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Within three months	175,923	175,121
Over three months and within six months	69,477	87,684
Over six months	113,365	161,884
	<u>358,765</u>	<u>424,689</u>

12. TRADE PAYABLES

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

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Within three months	150,068	145,005
Over three months and within six months	19,959	35,624
Over six months	787	3,624
	<u>170,814</u>	<u>184,253</u>

The trade payables are unsecured, non-interest-bearing and are normally settled within two months.

Notes to the Condensed Consolidated Financial Statements

13. CAPITAL COMMITMENTS

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

	30 June 2019 (Unaudited) HK\$'000	31 December 2018 (Audited) HK\$'000
Contracted, but not provided for:		
Purchases of land use rights	1,776	1,778
Construction and purchases of items of property, plant and equipment	4,013	3,979
	<u>5,789</u>	<u>5,757</u>

14. RELATED PARTY TRANSACTIONS

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

		Six months ended 30 June	
	Note	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Rental expenses paid to the Remaining Group	(i)	<u>1,827</u>	<u>1,856</u>

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

(b) The transaction in respect of item (a)(i) above is also a continuing connected transaction of the Company as defined under Chapter 14A of the Listing Rules.

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Short term employment benefits	4,768	5,866
Post-employment benefits	250	342
Total compensation paid/payable to key management personnel	<u>5,018</u>	<u>6,208</u>

Notes to the Condensed Consolidated Financial Statements

15. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

At the end of the reporting period, the carrying amounts of the Group's financial assets and liabilities reasonably approximated to their fair values.

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

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

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

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

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

- Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair values measured based on valuation techniques for which the lowest level inputs that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3: fair values measured based on valuation techniques for which the lowest level inputs that is significant to the fair value is unobservable

Notes to the Condensed Consolidated Financial Statements

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

Fair value hierarchy (continued)

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

	Fair value measurement using			Total (Unaudited) HK\$'000
	Quoted prices in active markets (Level 1) (Unaudited) HK\$'000	Significant observable inputs (Level 2) (Unaudited) HK\$'000	Significant unobservable inputs (Level 3) (Unaudited) HK\$'000	
<i>Assets measured at fair value:</i>				
At 30 June 2019				
Equity investment designated at fair value through other comprehensive income	-	300	-	300
At 31 December 2018				
Equity investment designated at fair value through other comprehensive income	-	300	-	300

There were no movements in fair value measurement of financial instrument in Level 3 during the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

During the six months ended 30 June 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2018: Nil).

16. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board on 28 August 2019.

Management Discussion and Analysis

BUSINESS REVIEW

On 15 July 2019, the National Bureau of Statistics of China announced the economic performance of the Mainland China in the first half of 2019. The primary growth drivers of China's economy continued to be in three folds, namely the level of the domestic consumption, export volume and value, and the amount of the infrastructure investment. The level of the domestic consumption continued to play a key role by contributing 60.1% of the overall growth. Despite the trade tension between China and the U.S., the gross domestic product of the Mainland China in the first half of 2019 grew by 6.3%. For the paint and coating industry in the Mainland China which is categorised as a "second industry", the average growth rate in the first half of 2019 was 5.8%, as compared to 6.1% in the first half of 2018.

As a result, the aggregate sales volume of paint and coating products in the Mainland China for the first six months of 2019 increased by 14.4%, as compared to the same period of 2018. In addition, during the six months ended 30 June 2019, the Manufacturing Producer Price Index for coating, ink, pigment and similar products in the Mainland China continued to increase in the range between 2.4% and 3.6%.

The satisfactory growth of the paint and coating industry for the six months ended 30 June 2019 was mainly driven by the real estate industry in the Mainland China. However, such growth was partially offset by the decrease in the retail consumption of the construction and decorative paint and coating products and the furniture paint and coating products. The cumulative construction area of real estate projects in the Mainland China for the six months ended 30 June 2019 increased by 10.1%, as compared to the increase of 11.8% for the six months ended 30 June 2018, but the cumulative completion area of real estate projects in the Mainland China for the six months ended 30 June 2019 continued to decrease further by 12.7%, as compared to 10.6% for the six months ended 30 June 2018. Hence, the retail sales of the construction and decorative paint and coating products for the six months ended 30 June 2019 decreased by 22.2%, as compared to the decrease of 24.2% for the six months ended 30 June 2018; and the retail sales of furniture goods (including the paint and coating products for furniture manufacturing purpose) decreased by 14.9%, as compared to the decrease of 23.4% for the six months ended 30 June 2018.

The decrease in the number of completed units in the property development industry in the Mainland China in the first six months of 2019 was one of the reasons for the reduced demand of interior paint and coating products for the period under review. Some of the paint and coating manufacturers in the Mainland China, which have predominantly operated through traditional sales channels, such as wholesalers or retail dealers, were largely affected. During the six months ended 30 June 2019, the Group generated a significant part of its revenue from the sales to property developers and industrial manufacturers. As a result, the Group recorded a growth in revenue for the six months ended 30 June 2019.

On the other hand, since October 2018, the crude oil prices had fallen from the peak. Starting from January 2019, the international crude oil prices increased again, but decreased in June 2019. Although there was a lower international crude oil prices in the first half of 2019 as compared to the last corresponding period, there was an increase in the PRC imported by-products price of crude oil, due to the depreciation of Renminbi against the US dollars during the six months ended 30 June 2019. As a result, the overall percentage decrease in raw materials prices in the PRC was not consistent with the percentage decrease in the international crude oil prices. For example, the percentage change of solvent prices in the PRC for the six months ended 30 June 2019 decreased by 6.8%, while the percentage change of international crude oil prices decreased by 13.4% for the six months ended 30 June 2019.

Management Discussion and Analysis

REVIEW OF OPERATIONS

The Group recorded a loss attributable to its parent company of HK\$48.05 million for the six months ended 30 June 2019, which was reduced by 33.4% as compared to the loss attributable to its parent company of HK\$72.10 million for the six months ended 30 June 2018. Despite the fact that the Group continued to incur loss during the six months ended 30 June 2019, the Group had improved its performance in the following areas:

Revenue

The amount of revenue of the Group increased to HK\$305.88 million during the six months ended 30 June 2019, as compared to HK\$251.49 million for the six months ended 30 June 2018. The table below sets forth an analysis of the Group's revenue during the six months ended 30 June 2019 and 2018 for its principal products:

	Six months ended 30 June				
	2019		2018		% of Change
	HK\$'000	%	HK\$'000	%	
Industrial paint and coating products	123,023	40.2	111,788	44.5	10.1
Architectural paint and coating products	124,919	40.9	85,137	33.9	46.7
General paint and coating and ancillary products ⁽¹⁾	57,935	18.9	54,566	21.6	6.2
	305,877	100.0	251,491	100.0	21.6

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

Significant increase in revenue

The increase in the amount of revenue generated from the sales of industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products for the six months ended 30 June 2019 were 10.1%, 46.7% and 6.2% respectively. The significant increase in revenue from the sales of architectural paint and coating products during the six months ended 30 June 2019 was primarily due to the increase in sales to renowned property developers in the Mainland China and therefore the Group had boosted its sales of architectural paint and coating products. In addition, the Group has recorded an increase in sales of industrial paint and coating products to industrial manufacturers.

Despite the depreciation of Renminbi, the revenue of the Group for the six months ended 30 June 2019, in terms of Hong Kong dollars, increased by 21.6%. It was worth noting that, in terms of the original currencies (Renminbi and Hong Kong dollars), the overall revenue of the Group for the six months ended 30 June 2019 increased by 28.6%.

Management Discussion and Analysis

REVIEW OF OPERATIONS (continued)

Expansion of the customer base

During the six months ended 30 June 2019, the Group expanded the sales to property developers and industrial manufacturers. The Group succeeded in increasing the proportion of revenue generated from these customers, rather than relying on the wholesalers and retail dealers.

Geographical analysis of the amount of revenue

Geographically, the majority of the Group's revenue was generated from the Southern China, the Central China and the Eastern China. These regions accounted for 79.9% of the Group's total revenue, as compared to 87.9% for the six months ended 30 June 2018.

Sales breakthrough in the Central China

The sales to customers in the Central China increased by 63.0% for the six months ended 30 June 2019, which was primarily due to the fact that the Group became one of the registered suppliers of the property developers. Accordingly, the Group boosted its sales of architectural paint and coating products by selling these products to the property developers in the Central China during the period under review.

Regain the market share in Hong Kong

In addition, the sales to customers in Hong Kong increased significantly by 99.1% for the six months ended 30 June 2019, which was primarily due to the enhancement in product mix and the increase in distribution networks in order to promote the sales of the branded water-based architectural paint and coating products and the supply of water-based architectural paint and coating products to contractors for government projects in Hong Kong as well as contractors in the private sector.

Increase in the revenue contribution from various customers in the Southern China

During the six months ended 30 June 2019, the Group recorded a significant increase in the amount of sales to the industrial manufacturers in the Southern China, as compared to the six months ended 30 June 2018. The increase was primarily due to the growth in sales to manufacturers in furniture, automotive and wind power industries. In addition, the Group adjusted its sales strategy to customers in the Southern China by promoting direct sales, rather than relying on the wholesalers and retail dealers.

Cost of Sales

Cost of raw materials

The raw materials used by the Group include resins, solvents and other materials, of which resins and solvents accounted for a significant portion of the total cost of raw materials. The crude oil prices directly or indirectly affect the prices of such raw materials. Since the beginning of 2019, the crude oil prices have been rising again but decreased in June 2019. However, as compared to the six months ended 30 June 2018, the overall crude oil prices during the six months ended 30 June 2019 decreased by 13.4%. The recent industrial accidents in the Mainland China, such as the Jiangsu Chemical Park Explosion happened in March 2019, caused an increase to the prices of the principal raw materials used by the Group. The prices of imported raw materials were also affected by the depreciation of Renminbi during the six months ended 30 June 2019. As a result, the fluctuation in raw materials prices was generally inconsistent with the change in the crude oil prices during the six months ended 30 June 2019.

Direct labour cost

The direct labour cost decreased by 18.5% to HK\$17.11 million for the six months ended 30 June 2019, which was primarily due to the Group's integration of the production facilities in the Mainland China and the streamline of the workforce and personnel in 2018.

Management Discussion and Analysis

REVIEW OF OPERATIONS (continued)

Depreciation and production overhead

The depreciation and production overhead cost increased by 6.5% to HK\$12.52 million for the six months ended 30 June 2019, which was primarily due to the additional depreciation in the assets at the production plant in Zhongshan (the “Zhongshan Production Plant”), which was acquired by the Group in August 2018.

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

The gross profit margin of the Group during the six months ended 30 June 2019 increased by 15.0% to 26.0%. The increase in the gross profit margin was mainly due to the increase in the average selling prices of the paint and coating products of the Group, the production volume and the production efficiency with the production cost increased to a lesser extent. A significant part of the production cost of the Group, such as depreciation and direct labour, would not increase at the same pace as the production volume. The increase in the average total selling prices of the paint and coating products of the Group was primarily due to the change in the product mix and the general increase in the selling prices of the industrial paint and coating products and architectural paint and coating products since the second half of 2018.

The Group’s gross profit for the six months ended 30 June 2019 increased by 39.9% to HK\$79.45 million as compared to the six months ended 30 June 2018. The increase was mainly due to the factors set forth above.

Selling and Distribution and Administrative Expenses

The amount of the selling and distribution expenses decreased by 14.8% to HK\$64.71 million and the percentage to revenue also decreased by 29.8% to 21.2% from 30.2% during the six months ended 30 June 2019.

The amount of the administrative expenses during the six months ended 30 June 2019 increased by 6.9% to HK\$54.77 million, as compared to HK\$51.22 million during the six months ended 30 June 2018. The percentage to revenue of the administrative expenses decreased by 12.3% to 17.9% during the six months ended 30 June 2019, as compared to 20.4% for the six months ended 30 June 2018. It was primarily due to the increase in the amount of revenue through better utilisation of the production facilities of the Group.

In light of the foregoing, the Group recorded increases in the amount of revenue and gross profit, as well as the gross profit margin. The Group also lowered the amount of selling and distribution expenses, both in terms of the amount and the percentage to the amount of revenue. However, the Group recorded a loss attributable to its parent company of HK\$48.05 million for the six months ended 30 June 2019, the amount of which was nonetheless reduced by 33.4% as compared to a loss of HK\$72.10 million for the six months ended 30 June 2018. The Group has implemented key initiatives to reduce the amount of loss during the six months ended 30 June 2019.

FINANCIAL REVIEW

Liquidity and Indebtedness

The Group’s business operation is generally financed by its internal financial resources and bank borrowings. The cash and cash equivalents amounted to HK\$146.05 million as of 30 June 2019, as compared to HK\$160.28 million as of 31 December 2018. The decrease in the cash and cash equivalents as of 30 June 2019 was mainly due to the repayment of certain bank loans. Bank and other borrowings amounted to HK\$213.68 million as of 30 June 2019 as compared to HK\$220.43 million as of 31 December 2018. The Group’s bank and other borrowings mainly bear interest at floating rates. The Group’s total bank and other borrowings amounted to HK\$213.68 million (100.0%) as of 30 June 2019 is payable within one year.

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

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Liquidity and Indebtedness (continued)

Gearing ratio of the Group, which is expressed as a percentage of total bank and other borrowings to shareholders' funds, was 41.0% as of 30 June 2019, as compared to 38.7% as of 31 December 2018. Liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.40 times as of 30 June 2019, as compared to 1.48 times as of 31 December 2018.

For the six months ended 30 June 2019, the inventory turnover days¹ were 49 days which was slightly different from that of 44 days in 2018. The trade and bills receivables turnover days² were 212 days as compared to that of 251 days in 2018. The decrease in the trade receivable turnover days was primarily due to better settlement progress from customers.

Equity and Net Asset Value

Shareholders' funds of the Company as of 30 June 2019 amounted to HK\$520.93 million as compared to HK\$569.39 million as of 31 December 2018. Net asset value per share as of 30 June 2019 amounted to HK\$0.52, as compared to HK\$0.57 as of 31 December 2018. Fluctuations in the foreign currency exchange rates between Hong Kong dollar (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 of 30 June 2019, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was HK\$213.68 million (31 December 2018: HK\$219.38 million).

Pledge of Assets

As of 30 June 2019, certain property, plant and equipment and right-of-use assets with aggregate net book value of HK\$8.09 million (31 December 2018: HK\$8.48 million) were pledged to financial institutions as collaterals for bank and other borrowings and lease liabilities. In addition, as of 30 June 2019, a wholly-owned subsidiary of the Company pledged its shares (30 June 2018: Nil) to secure general banking facilities granted to the Group.

STAFF

As of 30 June 2019, the number of staff of the Group was 808 (30 June 2018: 962). Staff costs (excluding Directors' emoluments) amounted to HK\$68.85 million for the six months ended 30 June 2019 as compared to HK\$73.79 million for the six months ended 30 June 2018. The Group offers competitive remuneration and fringe benefits to its staff with reference to their performance.

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 2018: 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 2018: 365 days).

Management Discussion and Analysis

BUSINESS OUTLOOK

The principal market of the Group is in the Mainland China. There are uncertainties on the continuous growth in China's economy amid the trade tension between China and the U.S. which could result in tariff to be imposed on a wide range of products. The growth of China's economy is expected to slow down. The PRC Industrial Production Index, which was released in August 2019, indicated that the level of production activities of the PRC industrial production business recorded a relatively small growth rate of 4.8% in July 2019. The business environment in the Mainland China and in Hong Kong are expected to experience volatility and challenges in the second half of 2019 due to the recent social unrest events.

The Group continuously assesses the opportunities and the challenges in the Mainland China's market. Amid the challenging business environment, the Group will act proactively for the purpose of improving the production chain and enhancing the product portfolio of the Group in the solvent-based and the water-based paint and coating products. The Directors believe that the Group should benefit from the Guangdong-Hong Kong-Macao Greater Bay Area initiative and will aim at the Southern China market with a focus on leading cities in the Guangdong Province, such as Shenzhen and Zhongshan, with the production capacity increased in the Zhongshan Production Plant. The Directors believe that such business focus is beneficial to the business development of the Group with resources to be focused on the target market in which the Group has significant business presence.

Discontinue the Expansion of the Xinfeng Production Plant

According to President Xi Jinping, the development of the Guangdong-Hong Kong-Macao Greater Bay Area is a national strategy. It is a key development strategy in the country's reform and opening up in the new era.

Since July 2017, the National Development and Reform Commission and the governments of Guangdong, Hong Kong and Macau had signed the Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Greater Bay Area in Hong Kong. With the support of the Chinese Government, the governments of Guangdong, Hong Kong and Macau introduced many measures for implementing the development of the Greater Bay Area. In February 2019, the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area was published, which laid out a road map for future development. The policy on the Greater Bay Area and the related infrastructure projects significantly reduce the travel time between Hong Kong, Zhuhai and Macau. In 2018, the Hong Kong-Zhuhai-Macau Bridge and the Guangzhou-Shenzhen-Hong Kong Express Rail Link were launched. These infrastructures significantly reduce travel times from Hong Kong to Zhuhai and Macau, and connect Hong Kong to Shenzhen and Guangdong, and subsequently to China's vast high-speed rail network. In the early of April 2019, the Nansha Bridge was launched, which reduced the travel time between Nansha and Humen. In 2024, the construction of the Shenzhen-Zhongshan Corridor will be completed, which is expected to further reduce the travel time between Shenzhen and Zhongshan/Jiangmen by 30 minutes.

In view of the Chinese government's development policy in encouraging the development of the Greater Bay Area, it is believed that the location of the Zhongshan Production Plant can provide better services to customers because of its proximity to the leading cities in the Guangdong Province and other parts of the Greater Bay Area. Following completion of the feasibility study, the Directors believe that with the water-based paint and coating products to be produced within the Zhongshan Production Plant, it would reduce the production lead time and the transportation costs.

Out of the net proceeds from the Global Offering (as defined in the Company's prospectus dated 19 June 2017 (the "Prospectus")), the Group originally allocated HK\$39.9 million for the construction of production facilities for water-based paint and coating products within the production plant in Xinfeng (the "Xinfeng Production Plant"). The Directors have considered, following completion of the relevant feasibility study, that it would be more appropriate and cost-effective to construct the new production facilities for water-based paint and coating products within the Zhongshan Production Plant. Hence, the amount of the net proceeds from the Global Offering (as defined in the Prospectus) would then be used for the construction of the new production facilities within the Zhongshan Production Plant.

Management Discussion and Analysis

BUSINESS OUTLOOK (continued)

Discontinue the Expansion of the Xinfeng Production Plant (continued)

In addition, instead of further strengthening the product research and development centre within the Xinfeng Production Plant, the Group would use HK\$20.0 million to set up a new product research and development centre (the "New R&D Centre") in Shenzhen. Such amount includes the acquisition of office premises and the required equipment. The Group is in the process of identifying suitable premises for the New R&D Centre, which is expected to commence business operation around the end of 2020. The set up of the New R&D Centre in Shenzhen is in line with the Greater Bay Area's development, focusing on encouraging and promoting Shenzhen as an important base for high-tech research, development and manufacturing in the southern part of China and more importantly, employing high caliber candidates for the support of the further development of paint and coating products in the Southern China.

Strengthen the Production Activities at the Zhongshan Production Plant

The Directors have decided to construct new production facilities for water-based paint and coating products within the Zhongshan Production Plant. The estimated construction cost of the production facilities would be approximately HK\$32.2 million, which is subject to the final determination of the details and the specifications of the production facilities. The Directors expect that the construction of the water-based paint and coating product production facilities would be divided into two phases. During the first phase, for industrial paint and coating products, the construction work will commence from the fourth quarter of 2019, trial production is expected to commence during the mid of 2020 and the commercial production will commence from the third quarter of 2020. The second phase will be used for the production of architectural paint and coating products. The construction work will commence from the mid of 2020, trial production is expected to commence during the first quarter of 2021 and the commercial production is planned to commence from the mid of 2021.

Other Business Measures and Initiatives

Currently, the Group continues to implement various business revamp measures and initiatives, which were disclosed in the 2018 annual report of the Company, to strengthen the business operation of the Group and to reduce the production costs. Such measures and initiatives are comprehensive and are designed to deal with both the short and long-term business development of the Group. In addition, the Directors have plans to devote additional resources to promote the branded paint and coating products of the Group and improve the production process and technology. The distribution network and the sales and marketing activities, which target at high-growth and environmental-friendly paint and coating products, will also be enhanced. The Directors believe that the improvements will be reflected in the operating results of the Group for the full year of 2019.

UPDATE ON THE NON-FATAL FIRE ACCIDENT AT THE XINFENG PRODUCTION PLANT

As disclosed in the announcement of the Company dated 5 July 2019, a fire accident occurred on 3 July 2019 at the Xinfeng Production Plant. Certain consumable stores and fixture were damaged in the accident, but no person was injured or killed in the accident. In addition, based on the assessment conducted by the Group, the structure of the warehouse building is safe and the cost of the damaged consumable stores and fixture lost amounted to less than RMB0.5 million.

On 8 August 2019, the Xinfeng Production Plant has obtained permission to resume the production activities.

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

Save as disclosed above, during the six months ended 30 June 2019, there was no other significant investment acquired, nor was there any other material acquisitions or disposals of subsidiaries during the period under review. The Board has not yet authorised any plan for other material investments or additions of capital assets.

Other Information

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

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

As at 30 June 2019, none of the Directors or chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Listing Rules, or which were recorded in the register required to be kept by the Company under Section 352 of the SFO. Nor any of the Directors and the chief executives of the Company had any interest in, or had been granted any right to subscribe for the securities of the Company and its associated corporations (within the meaning of Part XV of the SFO) or had exercised any such right during the period under review.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2019, the register maintained by the Company under Section 336 of the SFO showed that the following persons had interests in the shares and underlying shares of the Company:

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

Note:

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

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

Save as disclosed above, the Company has not been notified by any person who had interests or short positions in the shares or underlying shares of the Company as at 30 June 2019 which were required to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Other Information

CORPORATE GOVERNANCE

The Board recognises the importance of and benefit from good corporate governance practices and has devoted considerable efforts to develop the best corporate governance practices appropriate to the businesses of the Group. Throughout the six months ended 30 June 2019, the Company has applied the principles and complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

CHANGE IN INFORMATION OF DIRECTORS

There is no change in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard as set out in the Model Code. After specific enquiry by the Company, all Directors confirmed that they have complied with the required standard as set out in the Model Code and the Company's own code during the six months ended 30 June 2019.

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

Hong Kong, 28 August 2019