中漆集團有限公司
CPM GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1932)

ANNOUNCEMENT OF 2017 INTERIM RESULTS

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2017	2016	
	(Unaudited)	(Unaudited)	
Results	**HK$'000**	HK$'000	Change
Revenue	**383,942**	388,437	-1.2%
Gross profit	**107,582**	147,148	-26.9%
Gross profit margin	**28.0%**	37.9%	-26.1%
Profit/(loss) attributable to shareholders of the Company	**(17,620)**	18,180	-196.9%
Earnings/(loss) per share (HK cents) Basic and diluted	**(2.35)**	2.42	-197.1%

	As at	As at	
	30 June	31 December	
	2017	2016	
	(Unaudited)	(Audited)	
Financial Position	**HK$'000**	HK$'000	Change
Total cash and bank balances (including cash and cash equivalents and structured deposits)	**184,456**	318,206	-42.0%
Bank and other borrowings	**116,198**	114,732	+1.3%
Gearing ratio	**23.7%**	17.2%	+37.8%
Net asset value per share (HK$)	**0.67**	0.90	-25.6%

INTERIM RESULTS

The board of directors (the "Board") 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 2017 together with comparative amounts for the corresponding period in 2016. 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 2017

	Notes	**Six months ended 30 June** **2017** **(Unaudited)** **HK$'000**	2016 (Unaudited) HK$'000
REVENUE	3	**383,942**	388,437
Cost of sales		**(276,360)**	(241,289)
Gross profit		**107,582**	147,148
Other income and gains, net	3	**4,945**	6,090
Selling and distribution expenses		**(76,438)**	(67,074)
Administrative expenses		**(50,355)**	(52,011)
Other expenses, net		**(3,822)**	(9,696)
Finance costs	4	**(949)**	(1,245)
PROFIT/(LOSS) BEFORE TAX	5	**(19,037)**	23,212
Income tax credit/(expenses)	6	**1,500**	(5,087)
PROFIT/(LOSS) FOR THE PERIOD		**(17,537)**	18,125
ATTRIBUTABLE TO:			
Owners of the parent		**(17,620)**	18,180
Non-controlling interest		**83**	(55)
		(17,537)	18,125
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic and diluted		**HK(2.35) cents**	HK2.42 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
PROFIT/(LOSS) FOR THE PERIOD	**(17,537)**	18,125
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**20,603**	(20,892)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:		
Remeasurement of net pension scheme assets	**–**	(459)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**20,603**	(21,351)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**3,066**	(3,226)
ATTRIBUTABLE TO:		
Owners of the parent	**2,871**	(3,083)
Non-controlling interest	**195**	(143)
	3,066	(3,226)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2017

	Notes	**30 June 2017 (Unaudited) HK$'000**	31 December 2016 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**194,405**	188,041
Prepaid land lease payments		**18,697**	18,389
Available-for-sale investment		**300**	300
Deposits for purchases of properties, and plant and equipment		**8,439**	8,662
Net pension scheme assets		**2,372**	2,372
Deferred tax assets		**8,077**	7,470
Total non-current assets		**232,290**	225,234
CURRENT ASSETS			
Inventories		**75,587**	60,955
Trade and bills receivables	10	**487,460**	445,513
Prepayments, deposits and other receivables		**59,916**	44,702
Due from the Remaining Group		**5,874**	106,555
Structured deposits		**19,749**	98,666
Cash and cash equivalents		**164,707**	219,540
Total current assets		**813,293**	975,931
CURRENT LIABILITIES			
Trade and bills payables	11	**191,868**	199,635
Other payables and accruals		**128,353**	139,797
Due to the Remaining Group		**66,283**	19,853
Interest-bearing bank and other borrowings		**114,990**	113,344
Tax payable		**10,679**	17,088
Total current liabilities		**512,173**	489,717
NET CURRENT ASSETS		**301,120**	486,214
TOTAL ASSETS LESS CURRENT LIABILITIES		**533,410**	711,448

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**1,208**	1,388
Deferred tax liabilities	**28,494**	29,343
Deferred income	**2,271**	2,346
Total non-current liabilities	**31,973**	33,077
Net assets	**501,437**	678,371
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**–**	–
Reserves	**497,624**	674,753
	497,624	674,753
Non-controlling interest	**3,813**	3,618
Total equity	**501,437**	678,371

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.1 REORGANISATION AND BASIS OF PRESENTATION

CPM Group Limited (the "Company") is an exempted company with limited liability incorporated in the Cayman Islands on 19 September 2016. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is situated at 31st Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong. The shares of the Company (the "Shares") have been listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 10 July 2017 (the "Listing Date").

The Company is an investment holding company. During the period under review, the Company's subsidiaries were engaged in the manufacture and sale of paint and coating products.

Pursuant to the reorganisation (the "Reorganisation") of the Group in connection with the listing of the Shares on the Stock Exchange, as explained in the paragraph headed "Reorganisation" in the section headed "History, Development and Reorganisation" in the prospectus (the "Prospectus") of the Company dated 19 June 2017, the Company became the holding company of the companies now comprising the Group on 19 September 2016. Since the companies now comprising the Group were under the common control of the same controlling shareholders before and after the Reorganisation, these financial statements have been prepared using the principles of merger accounting.

In the opinion of the directors of the Company (the "Directors"), CNT Group Limited ("CNT Group"), a company incorporated in the Bermuda and listed on the main board of the Stock Exchange, is the ultimate holding company of the Company during the period under review.

The Company and its subsidiaries are hereafter collectively referred to as the "Group"; whereas CNT Group and its subsidiaries, but excluding the Group, are collectively referred to as the "Remaining Group".

The condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2017 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or business first came under the common control of CNT Group, where this is a shorter period.

Equity interests in subsidiaries and/or business held by parties other than the controlling shareholders, and changes therein, prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting. All intra-group transactions and balances have been eliminated on consolidation.

1.2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

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 ("HKICPA") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's financial information for the year ended 31 December 2016 included in the Prospectus, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs", which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA which are effective for the Group's annual period beginning on 1 January 2017.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Annual Improvements 2014 – 2016 Cycle	Amendments to a number of HKFRSs

The adoption of these revised HKFRSs has had no significant financial effect on these unaudited condensed consolidated interim financial statements.

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 financial information included in the Prospectus.

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 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014 – 2016 Cycle	Amendments to a number of HKFRSs[4]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] No mandatory effective date yet determined but available for adoption
[4] Effective for annual periods beginning on or after 1 January 2018, with early application permitted

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

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 and related services. 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	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Hong Kong	**50,267**	44,541
Mainland China	**333,675**	343,896
	383,942	388,437

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

(b) Non-current assets

	30 June	31 December
	2017	2016
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Hong Kong	**3,934**	4,256
Mainland China	**217,607**	210,836
	221,541	215,092

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

There were no revenue from any single customer accounted for 10% or more of the total revenue of the Group for the six months ended 30 June 2017 and 30 June 2016.

3. REVENUE, OTHER INCOME AND GAINS, NET

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Revenue		
Sale of paint and coating products	**383,942**	388,437
Other income and gains, net		
Bank interest income	**628**	1,641
Government grants*	**1,581**	307
Fair value gains		
Structured deposits	**764**	1,950
Derivative instrument – transaction not qualifying as hedge	**–**	10
Foreign exchange differences, net	**809**	869
Recognition of deferred income	**145**	153
Others	**1,018**	1,160
	4,945	6,090

* 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.

4. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank loans	**907**	1,245
Interest on finance leases	**42**	–
	949	1,245

5. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**276,360**	241,289
Depreciation	**8,544**	9,313
Amortisation of prepaid land lease payments	**252**	266
Provision for impairment of trade receivables*	**–**	4,952
Write down/(write-back) of inventories to net realisable value, net	**396**	(3,987)
Loss on disposal of items of property, plant and equipment, net*	**29**	–

* These balances are included in "Other expenses, net" 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 2016: 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 2016: 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 2016: 15%) had been applied during the period.

7. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share for the six months ended 30 June 2017 is based on the loss for the period attributable to owners of the parent of HK$17,620,000 (profit for the six months ended 30 June 2016: HK$18,180,000) and the weighted average number of Shares of 750,000,000 (six months ended 30 June 2016: 750,000,000) on the assumption that the Reorganisation and the Capitalisation Issue (as detailed in note 12) in connection with the listing of the Shares had been completed by 1 January 2016.

The weighted average number of Shares used to calculate the basic loss per Share amount for the period ended 30 June 2017 includes 100 ordinary Shares issued on 8 June 2017 and 749,999,900 new Shares issued pursuant to the Capitalisation Issue (as further detailed in note 12) on the assumption that these Shares had been in issue throughout the six months ended 30 June 2017.

The weighted average number of Shares used to calculate the basic earnings per Share amount for the period ended 30 June 2016 was based on 750,000,000 ordinary shares, representing the number of Shares immediately after the Capitalisation Issue, as if all these Shares had been in issue throughout the period ended 30 June 2016.

The Group had no potential dilutive ordinary shares in issue during the six months ended 30 June 2017 and 2016.

8. DIVIDEND

On 7 June 2017, CP Industries (BVI) Limited, the former holding company of the subsidiaries of the Group prior to the completion of the Reorganisation, declared a special interim dividend of HK$180,000,000 (six months ended 30 June 2016: Nil) to CNT Group. The rates for this dividend and the number of shares ranking for this dividend are not presented as such information is not considered meaningful for the purpose of the financial statements.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired items of properties, plant and equipment at costs of HK$8,287,000.

Items of properties, plant and equipment with an aggregate net book value of HK$48,000 were disposed of by the Group during the six months ended 30 June 2017.

10. 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 provision, is as follows:

	30 June 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Within three months	**314,821**	406,710
Over three months and within six months	**39,241**	22,724
Over six months	**133,398**	16,079
	487,460	445,513

11. 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 2017 (Unaudited) HK$'000	31 December 2016 (Audited) HK$'000
Within three months	**190,882**	198,074
Over three months and within six months	**830**	1,549
Over six months	**156**	12
	191,868	199,635

The trade payables are unsecured, non-interest-bearing and are normally settled within two months. As at 30 June 2017, bills payable with an aggregate carrying amount of HK$1,668,000 (31 December 2016: HK$807,000) were secured by certain investment properties owned by the Remaining Group which amounted to HK$344,791,000 (31 December 2016: HK$334,620,000).

12. EVENTS OCCURRING AFTER REPORTING PERIOD

(i) Pursuant to the resolution of the sole shareholder of the Company passed on 9 June 2017, the Company allotted and issued a total of 749,999,900 Shares, credited as fully paid at par, to CNT Enterprises Limited on the Listing Date by way of capitalisation of the sum of HK$74,999,990 standing to the credit of the share premium account of the Company (the "Capitalisation Issue"). This Capitalisation Issue was conditional on the share premium account being credited as a result of the issue of new Shares to the public in connection with the Company's initial public offering as detailed in note (ii) below.

(ii) In connection with the listing of the Shares on the Stock Exchange, 250,000,000 new Shares were issued at a price of HK$0.86 per share for a total cash consideration, before expenses, of HK$215,000,000. Dealings in the Shares on the Stock Exchange commenced on the Listing Date.

(iii) On 30 July 2017, the Company announced that in the morning of Friday, 28 July 2017, a fire accident occurred at the production plant operated by Hubei Giraffe Paint Mfg. Co., Ltd. (the "Ezhou Production Plant"), a non-wholly owned subsidiary of the Company, situated at Gedian Economic and Technological Development Zone, Ezhou City, Hubei Province, the PRC. As a result of the fire accident, certain raw materials, finished goods and fixtures have been damaged. No person is injured or killed in the fire accident.

The Group has taken immediate steps after the fire accident, including assisting the relevant PRC government authorities in on-site investigation and assessing the damages to the buildings, inventories and the relevant production facilities. Based on the preliminary assessment conducted by the Group, the structure of the buildings is safe and there is no need for demolishment. The cost of the damaged fixtures and the inventory lost amounted to less than RMB1.0 million. However, the production activities at the Ezhou Production Plant have been suspended pending completion of the post-accident investigation by the relevant PRC government authorities. During this period, the production orders received by the Ezhou Production Plant will be shifted to other production facilities of the Group. The Group has four production plants in the PRC. The designed annual production capacity of the Ezhou Production Plant represented 13.1% of the total designed annual production capacity of the Group as of 31 December 2016.

In light of the foregoing, the Directors believe that the fire accident will neither cause material adverse impact on the overall financial position of the Group, nor will it cause material damage on the Group's production, sales and operation.

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the first half of 2017, the economic growth in Mainland China has recorded the highest level since the third quarter of 2015. The growth was supported by the strong domestic consumption and the increasing global demand for the products manufactured in Mainland China. However, the paint and coating industry was generally affected by the significant increases in the raw material prices.

According to the data published by the National Bureau of Statistics of China on 18 July 2017, the gross domestic product (the "GDP") of Mainland China increased by 6.9% for the first half of 2017, as compared to the GDP growth of 6.7% for the first half of 2016. It was primarily driven by domestic and external consumption. As the Chinese government has set a growth target at around 6.5% for 2017, the GDP growth is expected to be slower in the second half of 2017.

However, according to the "Symposium for China Paint and Coating Industry Annual Meeting in 2017" ("2017年中國塗料、顏料行業工作年會論文徵集"), the paint and coating industry was challenged by the significant increase in the raw material prices. According to other public information, the average selling price of solvent increased significantly by 23% during the six months ended 30 June 2017, mainly due to the significant increase in the crude oil price as compared with the same period in 2016. In addition, the average selling prices of resin and titanium dioxide also increased as compared with the same period in 2016, due to the serious supply and demand imbalance in Mainland China. According to the public information, the performance of paint and coating manufacturers was affected by the substantial increase in the raw material prices. The gross profit margins of paint and coating manufacturers recorded a decrease ranging from 5% to 9%, with one of them even recorded a significant decrease of 30% in the gross profit.

Furthermore, the paint and coating manufacturers provided further discount to customers in order to increase their market shares in the architectural paint and coating market. According to the market information, one of the paint and coating manufacturers further reduced selling prices by an average of 6% in the household architectural paint and coating market during the period under review. The Group has actively responded to the market changes and has offered additional discounts and promotions to distributors as well as provided a better product mix to the customers.

As a result, the Group recorded an overall growth in sales volume when compared with the same period in 2016, despite the decrease in sales revenue during the period under review.

The Group recorded a loss attributable to its parent company of HK$17.62 million for the six months ended 30 June 2017. During the six months ended 30 June 2016, the Group recorded a profit attributable to its parent company of HK$18.18 million. The loss was mainly due to the increase in the raw material prices and the reduction in the average selling prices of selected paint and coating products.

The Group recorded sales revenue of HK$383.94 million during the six months ended 30 June 2017, representing a decrease of 1.2% as compared with the same period in 2016. The decrease in revenue was mainly due to the net effect of the increase in revenue generated from the sales of paint and coating products in Hong Kong by approximately HK$5.73 million in the period under review and the decrease in sales of paint and coating products in Mainland China by HK$10.22 million from HK$343.90 million in the corresponding period to HK$333.68 million in the period under review.

Although the Group reduced the average selling price of its paint products during the period under review, the increase in market share and the quantities sold of paint products during the period under review has rendered the revenue generated from Mainland China increased by RMB5.97 million from RMB289.23 million in the corresponding period to RMB295.20 million in the period under review. However, the average exchange rate of RMB for the period under review depreciated against HK$ approximately 4.9% as compared with the same period in 2016 which resulted in the decrease in revenue generated in Mainland China when translated into the presentation currency of the Company in HK$.

The gross profit margin was decreased by 9.9 percent point from 37.9% in last corresponding period to 28.0% in the period under review. The significant decrease in gross profit margin was mainly due to the increase in raw material costs and reduction of average selling prices of paint and coating products.

The Group’s gross profit for the period decreased by 26.9% to HK$107.58 million as compared with the same period in 2016, mainly due to the increase in raw materials prices during the period under review. The decrease was within the range of other paint and coating manufacturers.

The demand for our paint and coating products was affected by the seasonal factor of the manufacturing industries of toys, electronics and electrical appliances and the trend that most of the construction, repairs and renovation undertakings would generally schedule to be completed during the second half of a calendar year.

On 30 July 2017, the Company announced that on the morning of Friday, 28 July 2017, a fire accident occurred at the Ezhou Production Plant, situated at Gedian Economic and Technological Development Zone, Ezhou City, Hubei Province, the PRC. As a result of the fire accident, certain raw materials, finished goods and fixtures were damaged. No person is injured or killed in the fire accident.

The Group has taken immediate steps after the fire accident, including assisting the relevant PRC government authorities in on-site investigation and assessing the damages to the buildings, inventories and the relevant production facilities. Based on the preliminary assessment conducted by the Group, the structure of the buildings is safe and there is no need for demolishment. The cost of the damaged fixtures and the inventory loss amounted to less than RMB1.0 million. However, the production activities at the Ezhou Production Plant have been suspended pending completion of the post-accident investigation by the relevant PRC government authorities. During this period, the production orders received by the Ezhou Production Plant will be shifted to other production facilities of the Group. The Group has four production plants in the PRC. The designed annual production capacity of the Ezhou Production Plant represented 13.1% of the total designed annual production capacity of the Group as of 31 December 2016.

In light of the foregoing, the Directors believe that the fire accident will neither cause material adverse impact on the overall financial position of the Group, nor will it cause material damage on the Group's production, sales and operation.

FINANCIAL REVIEW

Liquidity and Financial Information

The Group's business operation is generally financed by its internal financial resources and bank borrowings. The cash and cash equivalents amounted to HK$164.71 million as at 30 June 2017 compared with HK$219.54 million as at 31 December 2016. The total cash and bank balances, including structured deposits, amounted to HK$184.46 million as at 30 June 2017 compared with HK$318.21 million as at 31 December 2016. Bank and other borrowings amounted to HK$116.20 million as at 30 June 2017 compared with HK$114.73 million as at 31 December 2016. The Group's bank and other borrowings mainly bear interest charged at floating rates. Of the Group's total bank and other borrowings as at 30 June 2017, HK$114.99 million (99.0%) is payable within one year, HK$0.39 million (0.3%) is payable in the second year and the remaining balance of HK$0.82 million (0.7%) is payable in the third to fifth years.

The Group's cash, bank balances and bank and other borrowings were mainly denominated in Hong Kong Dollars and Renminbi. The Group's results can be affected by movements in the exchange rate 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 arise.

Gearing ratio of the Group which is expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 23.7% as at 30 June 2017 compared with 17.2% as at 31 December 2016. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.59 times as at 30 June 2017 compared with 1.99 times as at 31 December 2016.

Equity and Net Asset Value

Shareholders' funds of the Company as at 30 June 2017 was HK$497.62 million compared with HK$674.75 million as at 31 December 2016. Adjusted capital of the Company, being shareholders' fund less the unrealised leasehold land and building revaluation reserve, as at 30 June 2017 was HK$6.49 million compared with HK$6.49 million as at 31 December 2016. Net asset value per Share as at 30 June 2017 and 31 December 2016 was HK$0.67 and HK$0.90 respectively assuming that the total number of 750,000,000 Shares in respect of the Capitalisation Issue have been issued.

Contingent Liabilities

The banking facilities granted to the Remaining Group subject to guarantees given to banks by the Group and a joint guarantee given to a bank by the Group and the ultimate holding company were utilised to the extent of approximately HK$27.89 million as at 30 June 2017 as compared with approximately HK$42.40 million as at 31 December 2016. Such corporate guarantees have been released upon Listing.

Pledge of Assets

As at 30 June 2017, certain land and buildings with an aggregate net book value of HK$7.98 million (31 December 2016: HK$8.03 million) were pledged to secure a general banking facility granted to the Group and the related banking facility was not yet utilised as at 30 June 2017.

STAFF

As at 30 June 2017, the Group's staff headcount was 1,059 (30 June 2016: 1,038). Staff costs (excluding directors' emoluments) amounted to HK$83.67 million for the period under review as compared with HK$86.02 million for the same period in 2016. The Group has a comprehensive and competitive staff remuneration and benefits system with reference to the performance of individual employees.

OUTLOOK

It is anticipated that there will be a recovery in the global economy is supported by the improvement in the economic performance of major countries, such as the U.S.A., Mainland China and leading countries in Europe. Economic conditions in the Mainland China are improving steadily as strong domestic demand and consumption spending are stimulating the economic growth. The Mainland China's economy has also benefited from the favourable monetary policies. In addition, the real economy in Mainland China has been improving as a result of structural reforms advanced steadily.

It is expected that the Mainland China's economy will be further driven by the urban fixed-asset investments, private investments, infrastructure spendings, and real-estate investments. It is expected that the Chinese government will slow down the Mainland China's economic growth in order to manage the financial risk, thus it could result in a further slowdown over the coming quarters.

Although the Group's gross profit margin was affected by the significant increase in raw materials prices in the first half of 2017, it is expected that the Group's gross profit margin would be stabilised as the pressure on raw materials prices has eased off and become increasingly stable.

Furthermore, with regard to the interim results of the Group in the first half of 2017, the Directors consider that the market situation remains challenging and competition is intense. The Group will remain prudent in regard to business development and will devote more resources to promote the image of selected brands, renovate selected shops in the distribution network and enhance the sales and marketing activities, targetting at high-growth and environmental-friendly paint and coating products.

In order to become a leading manufacturer of high quality green and safe paint products, the Group will construct a production plant for the production of water-based paint and coating products and a paint and coating product research and development centre in Xinfeng, the PRC. The Group will continue to manufacture and sell high-quality paint products. The Group will continue to focus on green production, technological innovation and development. To improve production efficiency, the Group will continue to invest in research and development to strengthen technological innovation and to streamline process flow. The Group will continue to focus on cost control and technological innovation to improve utilisation and production efficiency.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Shares were listed on the main board of the Stock Exchange on the Listing Date. Neither the Company, nor any of its subsidiaries, purchased, sold or redeemed any of the Shares for the period from the Listing Date and up to the date of this announcement.

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. As the Shares were not listed on the Stock Exchange during the six months ended 30 June 2017, the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules was not applicable to the Company for the six months ended 30 June 2017. From the Listing Date and up to the date of this announcement, the Company has complied with the code provisions as set out in the CG Code.

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"). As the Shares were not listed on the Stock Exchange during the six months ended 30 June 2017, the provisions under the Listing Rules in relation to compliance with the Model Code by the directors were not applicable to the Company for the six months ended 30 June 2017. After specific enquiry by the Company, all directors of the Company confirmed that they have complied with the required standard as set out in the Model Code and the Company's own code throughout the period from the Listing Date and up to the date of this announcement.

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

Hong Kong, 30 August 2017

As at the date of this announcement, the Board comprises Mr. Tsui Ho Chuen, Philip, Mr. Li Guangzhong and Mr. Wong Anders 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.