中漆集團有限公司
CPM GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1932)

ANNOUNCEMENT OF 2018 INTERIM RESULTS

FINANCIAL HIGHLIGHTS

Results	Six months ended 30 June 2018 (Unaudited) HK$'000	2017 (Unaudited) HK$'000	Change
Revenue	**251,491**	383,942	-34.5%
Gross profit	**56,802**	107,582	-47.2%
Gross profit margin	**22.6%**	28.0%	-19.3%
Loss attributable to shareholders of the Company	**(72,101)**	(17,620)	+309.2%
Loss per share (HK cent)			
Basic and diluted	**(7.21)**	(2.35)	N/A

Financial Position	As at 30 June 2018 (Unaudited) HK$'000	As at 31 December 2017 (Audited) HK$'000	Change
Cash and cash equivalents	**122,563**	247,258	-50.4%
Bank and other borrowings	**189,012**	101,786	+85.7%
Gearing ratio	**29.4%**	13.6%	+116.2%
Net asset value per share (HK$)	**0.65**	0.76	-14.5%

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 2018 together with comparative amounts for the corresponding period in 2017. 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 2018

	Notes	**Six months ended 30 June** **2018** **(Unaudited)** **HK$'000**	 2017 (Unaudited) HK$'000
REVENUE	3	**251,491**	383,942
Cost of sales		**(194,689)**	(276,360)
Gross profit		**56,802**	107,582
Other income and gains, net	3	**4,136**	4,945
Selling and distribution expenses		**(75,949)**	(76,438)
Administrative expenses		**(51,218)**	(50,355)
Other expenses, net		**(5,227)**	(3,822)
Finance costs	4	**(1,748)**	(949)
LOSS BEFORE TAX	5	**(73,204)**	(19,037)
Income tax credit	6	**780**	1,500
LOSS FOR THE PERIOD		**(72,424)**	(17,537)
ATTRIBUTABLE TO:			
Owners of the parent		**(72,101)**	(17,620)
Non-controlling interest		**(323)**	83
		(72,424)	(17,537)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic and diluted		**HK (7.21) cent**	HK (2.35) cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
LOSS FOR THE PERIOD	**(72,424)**	(17,537)
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	**(7,968)**	20,603
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(7,968)**	20,603
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	**(80,392)**	3,066
ATTRIBUTABLE TO:		
Owners of the parent	**(80,028)**	2,871
Non-controlling interest	**(364)**	195
	(80,392)	3,066

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**200,971**	200,883
Prepaid land lease payments		**18,688**	19,232
Available-for-sale investment		**–**	300
Financial asset at fair value through other comprehensive income		**300**	–
Deposits for purchases of properties, and plant and equipment		**21,205**	8,972
Deposits for acquisition of subsidiaries		**76,607**	–
Net pension scheme assets		**4,421**	4,421
Deferred tax assets		**4,043**	5,327
Total non-current assets		**326,235**	239,135
CURRENT ASSETS			
Inventories		**76,037**	71,682
Trade and bills receivables	9	**534,915**	698,051
Prepayments, deposits and other receivables		**84,797**	53,076
Cash and cash equivalents		**122,563**	247,258
Total current assets		**818,312**	1,070,067
CURRENT LIABILITIES			
Trade payables	10	**216,000**	293,604
Other payables and accruals		**50,927**	111,727
Due to Remaining Group		**68**	3,166
Interest-bearing bank and other borrowings		**136,165**	100,770
Tax payable		**11,917**	15,774
Total current liabilities		**415,077**	525,041
NET CURRENT ASSETS		**403,235**	545,026
TOTAL ASSETS LESS CURRENT LIABILITIES		**729,470**	784,161

	Notes	**30 June 2018 (Unaudited) HK$'000**	31 December 2017 (Audited) HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**52,847**	1,016
Deferred tax liabilities		**22,821**	25,154
Deferred income		**2,031**	2,215
Total non-current liabilities		**77,699**	28,385
Net assets		**651,771**	755,776
EQUITY			
Equity attributable to owners of the parent			
Issued capital	11	**100,000**	100,000
Reserves		**548,569**	652,210
		648,569	752,210
Non-controlling interest		**3,202**	3,566
Total equity		**651,771**	755,776

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 ("HKICPA") 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 accounting policies adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017, except for the adoption of the following new and 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 2018.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current period's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these unaudited condensed consolidated interim financial statements.

HKFRS 9 and HKFRS 15 were generally adopted by the Group without restating comparative information. As a result of the changes in the Group's accounting policies, certain reclassifications and adjustments are recognised in the opening statement of financial position on 1 January 2018.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail below.

Condensed consolidated statement of financial position (extract)	**Adjustments**	**Balance at 31 December 2017 as originally presented**	**Adjustments due to HKFRS 9**	**Balance at 1 January 2018**
		HK$'000	HK$'000	**HK$'000**
Available-for-sale investment	(a)	300	(300)	**–**
Financial asset at fair value through other comprehensive income	(a)	–	300	**300**
Trade and bills receivables	(b)	698,051	(23,613)	**674,438**
Retained profits	(a), (b)	(535,777)	23,113	**(512,664)**
Fair value reserve (non-recycling)	(a)	–	500	**500**

The impact of the above changes on the Group's equity is as follows:

	Retained profits	**Fair value reserve (non-recycling)**
	HK$'000	HK$'000
Closing balance as at 31 December 2017 under HKAS 39	535,777	–
Reclassification of accumulated impairment losses previously recognised for the unlisted equity investment to fair value reserve (non-recycling)	500	(500)
Recognition of additional expected credit losses on trade and bills receivables	(23,613)	–
Opening balance as at 1 January 2018 under HKFRS 9	512,664	(500)

HKFRS 9 *Financial Instruments*

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group has applied HKFRS 9 with the initial application date of 1 January 2018. The Group did not restate comparative information and recognised the transition adjustments against the opening balance of equity at 1 January 2018. The effects of adopting HKFRS 9 are summarised as follows:

(a) Classification and measurement

On initial application of HKFRS 9, the Group reclassified and measured its unlisted equity investment as financial asset at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity investments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. Financial asset at fair value through other comprehensive income is not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group's unlisted equity investment was classified as available-for-sale financial asset.

Under the adoption of HKFRS 9, the Group reclassified the accumulated impairment losses of HK$500,000 provided in prior years from retained profits to fair value reserve (non-recycling) as at 1 January 2018.

There are no changes in classification and measurement for the Group's financial liabilities and all other financial assets previously measured at amortised cost.

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. HKFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets. The Group has applied the standard simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic conditions.

Upon the adoption of HKFRS 9, the Group recognised an additional impairment on the Group's trade and bills receivables of HK$23,613,000, which resulted in a decrease in retained profits of HK$23,613,000 as at 1 January 2018.

Furthermore, the Group has applied the general approach and recorded twelve months expected losses on its financial assets included in prepayments, deposits and other receivables. The Group has determined that there is no significant impact on the provision for impairment of financial assets included in prepayments, deposits and other receivables upon the initial adoption of the standard.

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

HKFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted HKFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at 1 January 2018.

The cumulative effect of initially applying HKFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained profits. Therefore, the comparative information was not restated and continues to be reported under HKAS 18 and related Interpretations.

The Group has assessed its performance obligations under its arrangements pursuant to HKFRS 15 and has concluded that the adoption of HKFRS 15 does not have a significant impact and thus, no adjustment was made to the opening balance of retained profits at 1 January 2018.

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 9	*Prepayment Features with Negative Compensation*[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 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[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.

2 OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment which is the paint products segment engaged in the manufacture and sale of paint 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	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Hong Kong	**20,392**	50,267
Mainland China	**231,099**	333,675
	251,491	383,942

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

(b) Non-current assets

	30 June	31 December
	2018	2017
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Hong Kong	**3,313**	3,628
Mainland China	**314,158**	225,459
	317,471	229,087

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 2018 and 2017, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

3 REVENUE, OTHER INCOME AND GAINS, NET

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Revenue		
Sale of paint products	**251,491**	383,942
Other income and gains, net		
Bank interest income	**181**	628
Government grants*	**1,679**	1,581
Fair value gains of structured deposits	**–**	764
Foreign exchange differences, net	**–**	809
Gain on disposal of items of property, plant and equipment, net	**16**	–
Recognition of deferred income	**158**	145
Others	**2,102**	1,018
	4,136	4,945

* 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	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank loans	**1,716**	907
Interest on finance leases	**32**	42
	1,748	949

5 LOSS BEFORE TAX

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**194,689**	276,360
Depreciation	**9,495**	8,544
Amortisation of prepaid land lease payments	**274**	252
Write-down of inventories to net realisable value, net	**–**	396
Loss/(gain) on disposal of items of property, plant and equipment, net*	**(16)**	29
Write-off of items of property, plant and equipment*	**26**	–
Foreign exchange differences, net*	**534**	(809)

* These balances are included in "Other income and gains, net" 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 2017: 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% 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 2017: 15%) had been applied during the period.

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

The calculation of basic loss per share is based on the loss for the period attributable to ordinary equity holders of the parent of HK$72,101,000 (six months ended 30 June 2017: HK$17,620,000) and the weighted average number of ordinary shares of 1,000,000,000 (six months ended 30 June 2017: 750,000,000) in issue during the period.

The weighted average number of shares used to calculate the basic loss per share amount for the six months 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 defined in note 11(ii)) on the assumption that these shares had been in issue throughout the six months ended 30 June 2017.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2018 and 2017 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 2018 (six months ended 30 June 2017: Nil).

On 7 June 2017, CP Industries (BVI) Limited, the former holding company of the subsidiaries of the Group prior to the completion of a reorganisation of the Group (after which CNT Group Limited ("CNT Group"), the ultimate holding company of the Company, and its subsidiaries, but excluding the Group, are collectively referred to as the "Remaining Group"), declared a special interim dividend of HK$180,000,000 to CNT Group. The rate 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 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 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Within three months	**164,674**	506,999
Over three months and within six months	**58,634**	61,802
Over six months	**311,607**	129,250
	534,915	698,051

10 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 2018 (Unaudited) HK$'000	31 December 2017 (Audited) HK$'000
Within three months	**211,716**	289,675
Over three months and within six months	**3,389**	3,622
Over six months	**895**	307
	216,000	293,604

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

11 SHARE CAPITAL

(i) On 8 June 2017, the Company issued and allotted 99 shares of HK$0.1 each to the immediate holding company of the Company, namely, CNT Enterprises Limited.

(ii) Pursuant to the resolution of the sole shareholder of the Company passed on 9 June 2017, the Company issued and allotted a total of 749,999,900 shares, credited as fully paid at par, to CNT Enterprises Limited on 10 July 2017 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 (iii) below.

(iii) In connection with the listing of the shares of the Company on the Main Board of 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 10 July 2017.

12 EVENT AFTER THE REPORTING PERIOD

On 7 May 2018, the Company and CNT Group jointly announced that, Top Dreamer Limited ("Top Dreamer"), an indirect wholly-owned subsidiary of the Company, entered into the sale and purchase agreement with the vendor, an independent third party of the Group, pursuant to which the vendor conditionally agreed to sell, and Top Dreamer conditionally agreed to acquire the entire equity interest in China Molybdenum & Vanadium Development Limited (the "Target Company") for a cash consideration of RMB83.0 million (equivalent to approximately HK$102.6 million). The principal assets of the Target Company and its subsidiary are a plot of land located at Jiemin Village, Sanjiao Town, Zhongshan City, Guangdong Province, the PRC and the building and production facilities erected on the land and the trademarks owned by the subsidiary of the Target Company. The principal business of the Target Company and its subsidiary is the manufacture and sale of paint and coating products. As at 30 June 2018, the Group has paid total deposits of HK$76.6 million to the vendor. Up to the date of this announcement, the transaction has yet to be completed, and is subject to the satisfaction (or waiver by Top Dreamer) of the Second Completion Conditions (as defined in the joint announcement of the Company and CNT Group dated 7 May 2018).

INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2018, China's economy continued to experience a modest growth. The slow economic development was primarily attributable to reduced infrastructure investments and the value of China's imports rose more than exports. The paint and coating industry in Mainland China, which is generally affected by the manufacturing industry and the real property sectors, did not perform well even though the real property prices soared with increasing sales of residential units and commercial premises. This is primarily because most of the increased sales during the six months ended 30 June 2018 was pre-sales of premises. As a result, the demand for interior paint and coating products, including wooden paint, decreased significantly for the period under review.

According to the data published by the National Bureau of Statistics of China on 15 July 2018, the gross domestic product (the "GDP") of the PRC increased only by 6.8% during the six months ended 30 June 2018, as compared to the growth of 6.9% during the six months ended 30 June 2017. The modest growth was primarily driven by the domestic consumption in Mainland China. As the Chinese government has set a target growth rate of 6.5% for 2018, the general view is that the expected growth rate of GDP during the second half of 2018 would be slower than the first half of the year. The economic performance of Mainland China, as well as the domestic consumption level and domestic purchasing power, are also adversely affected by the import tariff unilaterally imposed by the U.S. government. Due to such macro-economic background, the sales volume of paint and coating products in the paint and coating industry in Mainland China for the first half of 2018, according to the National Bureau of Statistics of China, decreased by 10.4% as compared to the corresponding period in 2017. Such phenomenon was mainly caused by the decrease in the retail sales of construction and decorative materials by 25.5% and the decrease in the total domestic retail sales of furniture goods by 23.4%.

In particular, paint and coating manufacturers in Mainland China which rely on retail sales, like the Group, experienced a significant decrease in the sales volume during the six months ended 30 June 2018. Such decrease affects the sales of solvent-based as well as water-based paint and coating products because of weak demand for interior paint and coating products and the decrease in the saleable area of completed residential units and commercial premises during the period.

On the other hand, the continuous increase in crude oil prices since the second half of 2017 has resulted in the continuous and unexpected increase in the prices of principal raw materials, such as solvent and resin, for the paint and coating industry in Mainland China. For example, the average purchase prices of solvent have increased by approximately 25% during the six months ended 30 June 2018, as compared to the corresponding period in 2017.

Due to the increase in raw materials prices, paint and coating manufacturers in Mainland China have adjusted upward the ex-factory price of their products. According to the publicly available information, the retail prices of different types of paint and coating products in Mainland China has increased by 10%, as compared to the corresponding period in 2017. Such prices increase, however, cannot fully compensate the additional costs incurred on the raw materials due to the intense price competition.

During the six months ended 30 June 2018, the Group recorded a loss attributable to its parent company of HK$72.10 million, as compared to the loss attributable to its parent company of HK$17.62 million for the six months ended 30 June 2017. The unsatisfactory performance of the Group during the six months ended 30 June 2018 was due to a number of factors as follows:

1. The decrease in the revenue to HK$251.49 million during the six months ended 30 June 2018, as compared to HK$383.94 million for the six months ended 30 June 2017 was primarily due to the sluggish demand in the retail wood coating market, which is the primary market of the Group's paint and coating products. The demand was generally and adversely affected by the decrease in the number of completed residential units and commercial premises (which suppresses the demand for interior decoration paint and coating products during the six months ended 30 June 2018), changes in the consumers' preference on on-site home or office decoration (which has an adverse impact on the demand in the retailed wood coating market) and the stringent environmental measures in Mainland China. During the six months ended 30 June 2018, the Group was operating in a challenging environment with all these factors simultaneously affecting the demand for its paint and coating products and cost of sales. The Group's situation was further affected by the departure of sale personnels who are responsible for the marketing and promotion of the Group's business in the Eastern China Market.

2. The crude oil price has increased significantly since the second half of 2017. Such unexpected increase has resulted in the continuous increase in the raw materials prices that would need to be paid by the Group. Because of the intense price competition, the Group was not able to shift all cost of the increase in raw materials to its customers by increasing the product prices.

3. The increasingly stringent environmental protection and dangerous chemicals safety initiatives in Mainland China has provided less incentive for the paint and coating distributors to maintain high-level of inventory of solvent-based paint and coating products, which suppressed the promotion and sales of these products. Consumers may choose to purchase water-based paint and coating products. However, such purchase only accounted for an insignificant portion of the paint and coating products produced by the Group. Such environmental protection initiatives also affect consumers' preference and their selection of paint and coating products.

4. Although the production volume of the Group decreased during the six months ended 30 June 2018, the Group was not able to reduce the production overheads proportionally because of certain direct costs that would have to be incurred by the Group to maintain the production lines of the Group in operation. This affected the amount of gross profit and the gross profit margin of the Group during the six months ended 30 June 2018.

5. There was an appreciation in Renminbi when compared to the last corresponding period. Since there was loss making for the Group for the six months ended 30 June 2018, the appreciation in Renminbi over the period under review had resulted in a negative impact on the financial results of the Group after translation into Hong Kong dollar.

6. In addition to the above, the demand for the paint and coating products of the Group was to a less extent affected by the seasonal factor, which affects the operation of manufacturing and construction industries.

In light of the foregoing, the Group recorded decreases in revenue and the amount of gross profit and the gross profit margin. The operating loss of the Group during the six months ended 30 June 2018 was attributable to these factors.

The Group recorded sales revenue of HK$251.49 million during the six months ended 30 June 2018, representing a decrease of 34.5% as compared to the last corresponding period. The sales of paint and coating products of the Group in Hong Kong during the six months ended 30 June 2018 amounted to HK$20.39 million as compared to HK$50.27 million in the last corresponding period. The decrease in the sales of paint and coating products in Hong Kong was significant because of the increasingly competitive business environment for the sales of the architectural paint and coating products market. In Mainland China, the Group's revenue decreased to HK$231.10 million, as compared to HK$333.67 million in the last corresponding period. The decrease was mainly due to the changes in the economic environment in Mainland China, the increasing competition for the Group's products and unfavourable policy implications on distributors as a result of the stringent environmental protection and dangerous chemicals safety initiatives in Mainland China.

During the six months ended 30 June 2018, the gross profit margin decreased by 5.4 percentage point to 22.6%. The significant decrease in the gross profit margin was mainly due to the decrease in the amount of revenue and the increase in the cost of sales as a result of the increase in the raw materials prices and fixed production overheads incurred by the Group even though there were decreases in the production and sales volume of the Group's paint and coating products.

The Group's gross profit for the period decreased by 47.2% to HK$56.80 million as compared to the corresponding period in 2017. The decrease was mainly due to the factors set forth above.

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$122.56 million as of 30 June 2018 as compared with HK$247.26 million as of 31 December 2017. The significant decrease in cash and cash equivalents during the period under review was mainly due to (i) the deposit paid for the acquisition of property, plant and equipment; (ii) the first two payments made for the acquisition of the entire equity interest in China Molybdenum & Vanadium Development Limited; and (iii) the use of working capital. Bank and other borrowings amounted to HK$189.01 million as of 30 June 2018 as compared with HK$101.79 million as of 31 December 2017. The Group's bank and other borrowings mainly bear interest at floating rates. Of the Group's total bank and other borrowings as of 30 June 2018, HK$136.16 million (72.1%) is payable within one year, HK$52.41 million (27.7%) is payable in the second year and the remaining balance of HK$0.44 million (0.2%) is payable in the third to fifth years. The significant increase in bank and other borrowings during the period under review was mainly due to (a) the partial payment for the acquisition of the entire equity interest in China Molybdenum & Vanadium Development Limited; and (b) the use of working capital.

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 29.4% as of 30 June 2018 as compared with 13.6% as of 31 December 2017. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.97 times as of 30 June 2018 as compared with 2.04 times as of 31 December 2017.

Equity and Net Asset Value

Shareholders' funds of the Company as of 30 June 2018 was HK$648.57 million as compared with HK$752.21 million as of 31 December 2017. Adjusted capital of the Company, being shareholders' fund less the unrealised leasehold land and building revaluation reserve, as of 30 June 2018 was HK$642.08 million as compared with HK$745.72 million as of 31 December 2017. Net asset value per share as of 30 June 2018 and 31 December 2017 was HK$0.65 and HK$0.76 respectively assuming that the total number of 1,000,000,000 shares in respect of the Capitalisation Issue have been issued.

Contingent Liabilities

As of 30 June 2018, the banking facilities granted to various subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of HK$150.93 million (31 December 2017: HK$100.77 million).

Pledge of Assets

As of 30 June 2018, certain land and buildings with an aggregate net book value of HK$7.74 million (31 December 2017: HK$8.00 million) were pledged to secure a general banking facility granted to the Group.

STAFF

As of 30 June 2018, the number of staff of the Group was 962 (30 June 2017: 1,059). Staff costs (excluding directors' emoluments) amounted to HK$73.79 million for the period under review as compared with HK$83.67 million for the same period in 2017. The Group has a comprehensive and competitive staff remuneration and benefits system with reference to the performance of individual employees.

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

Except for the acquisition of the entire equity interest in the Target Company as jointly announced by the Company and CNT Group on 7 May 2018, 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.

BUSINESS PLANS AND OUTLOOK

The Directors are cautiously optimistic on the business environment of the paint and coating industry in Mainland China in the midst of different challenges encountered by the Group. The current trade conflicts between China and the U.S. could affect the continuous economic growth in Mainland China as previously envisaged by the Chinese government. The effect is, however, difficult to ascertain. In July 2018, the Chinese government retaliated and implemented an additional tariff of 25.0% on several imported products from the U.S.. Some of the listed chemical products are amongst the principal raw materials for paint and coating products, including lubricants, epoxy resin, and other polyester. Whilst the impact of the increase in the PRC tariffs on the imported raw materials has yet to be reliably ascertained, it is expected that the raw materials prices for paint and coating products imported to the Mainland China will continue to increase during the second half of 2018.

According to the State Information Center of China, the economic development of the Mainland China is likely to slow down with the growth rate of not more than 6.6% for the six months ending 31 December 2018. The primary reasons for the decline include the current trade conflicts between the U.S. and China, the reduction of the excessive corporate debts in order to manage the financial risk, and the implementation of the Air Pollution Prevention and Control Action Plan in order to improve the air quality. It is expected that the economy of China will continue to be driven by the domestic consumption and infrastructure and real estate investments.

It is expected that the prices of raw materials for paint and coating products will continue to be subject to a high level of uncertainty for the six months ending 31 December 2018. Therefore, the gross profit margin of the Group may not have any significant rebound in the near future.

In light of the substantial decrease of the revenue, gross profit margin and gross profit for the six months ended 30 June 2018, the Group is in the process of formulating and implementing various business plans to improve the business operation and reduce the costs of the Group in the second half of 2018. These business initiatives include the following:

1. **Implementation of stringent cost control measures**

   Starting from the second quarter of 2018, the Group has implemented stringent cost control measures with the focus on reducing the fixed production overheads and administrative expenses and improving the operational efficiency, both at the production and the group administrative levels. The Directors consider that such cost control measures are important for the Group to improve its profitability and streamline its business operations.

2. **Enhancement of the product mix and streamline the product offerings**

   The Directors are also reviewing the product mix of the Group and will adjust the production of paint and coating products under different brands with similar functions and applications. These products may have been developed at different times in response to the then consumers' demands or newly launched products by competitors. By implementing the product mix enhancement, the Directors expect that the Group can reduce the production costs, increase the production efficiency and devote additional financial and marketing resources to promote the sales of selected and well-received paint and coating products.

   In addition, the Directors believe that the demand for paint and coating products in the construction and manufacturing industries in Mainland China will increase. The Company will expand the customer base which is engaged in the construction and manufacturing industries. The Group has established a dedicated task force to focus on the supply paint and coating products to construction projects in Guangdong Province, PRC.

The Group will continue to produce and sell high-quality paint and coating products and will focus on green production process and technological improvement and development.

3. **Launch of new products**

The Group has launched a new product of Exterior Decorative Insulation Wall Board (the "EDIWB") in April 2018, which is a kind of newly-developed and researched light building material. The EDIWB have all features of different types of all paint and coating products and can be applied directly on surface areas without different layers of insulation materials. The Group is a strategic construction partner for the installation of the EDIWB in Henan Province, the PRC. The Group is planning to launch the EDIWB with the function of insulation in the second half of 2018. With the Chinese government's emphasis on building energy efficiency issue, the Directors expect that there will be an increasing demand for the building thermal insulation industry.

4. **Improvement in the procurement and sourcing process**

The Group will reduce the number of suppliers for the purpose of achieving economies of scale and reducing the purchase price (or increasing the bulk purchase discount) and saving transportation time and cost. This improvement is expected to be implemented with the integration of production facilities of the Group. Through the improvement in the procurement and sourcing process, the Directors expect that the Group would have relatively strong bargaining power for the reduced price of the raw materials required.

5. **Integration of production facilities in Mainland China**

The Directors consider that most of the revenue of the Group is generated from sales to customers in the Southern China. In this connection, the Group plans to continue to strengthen its production activities in Shenzhen, Zhongshan and Xinfeng, Guangdong Province, the PRC. The Directors believe that through the increased production activities at these production facilities, the production cost and the lead-time for production will reduce, in order to meet the newly targeted construction and manufacturing customers demand in high growth construction and manufacturing industries in Guangdong Province, the PRC. In particular, the Group will continue to enhance the production activities being carried out at the production facilities of the Group in Shenzhen, Guangdong Province, the PRC so that such production facilities will become the principal production hub and the product research and development base of the Group.

Subject to completion of the feasibility study, the Group plans to construct a new production plant for the production of water-based paint and coating products in Zhongshan, Guangdong Province, the PRC.

Through the above integration, the Directors will reassess the scale of the production activities and the nature of paint and coating products currently produced at the production facilities in Xuzhou, Jiangsu Province, the PRC and Ezhou, Hubei Province, the PRC, so as to maximise the use of these facilities for the benefit of the Group. The Directors may also consider leasing part of the under-utilised production facilities or premises to third parties for rental income. For customers located in the regions who are currently served by the Group through the under-utilised production facilities, the Group is exploring production cooperation with selected paint and coating manufacturers on an Original Equipment Manufacturer (OEM) basis.

The Directors consider that the current market situation remains challenging and competitive. The Directors will remain prudent in the business development of the Group and will 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 a high-growth and environmental-friendly paint and coating products, will also be enhanced.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

CORPORATE GOVERNANCE

The Board recognises the importance of and benefit from good corporate governance practices and has devoted considerable efforts to develop the best corporate governance practices appropriate to the businesses of the Group. Throughout the six months ended 30 June 2018, the Company has applied the principles and complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (the "Model Code"). After specific enquiry by the Company, all Directors confirmed that they have complied with the required standard as set out in the Model Code and the Company's own code during the six months ended 30 June 2018.

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

Hong Kong, 30 August 2018

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.