



INTERIM REPORT 2022



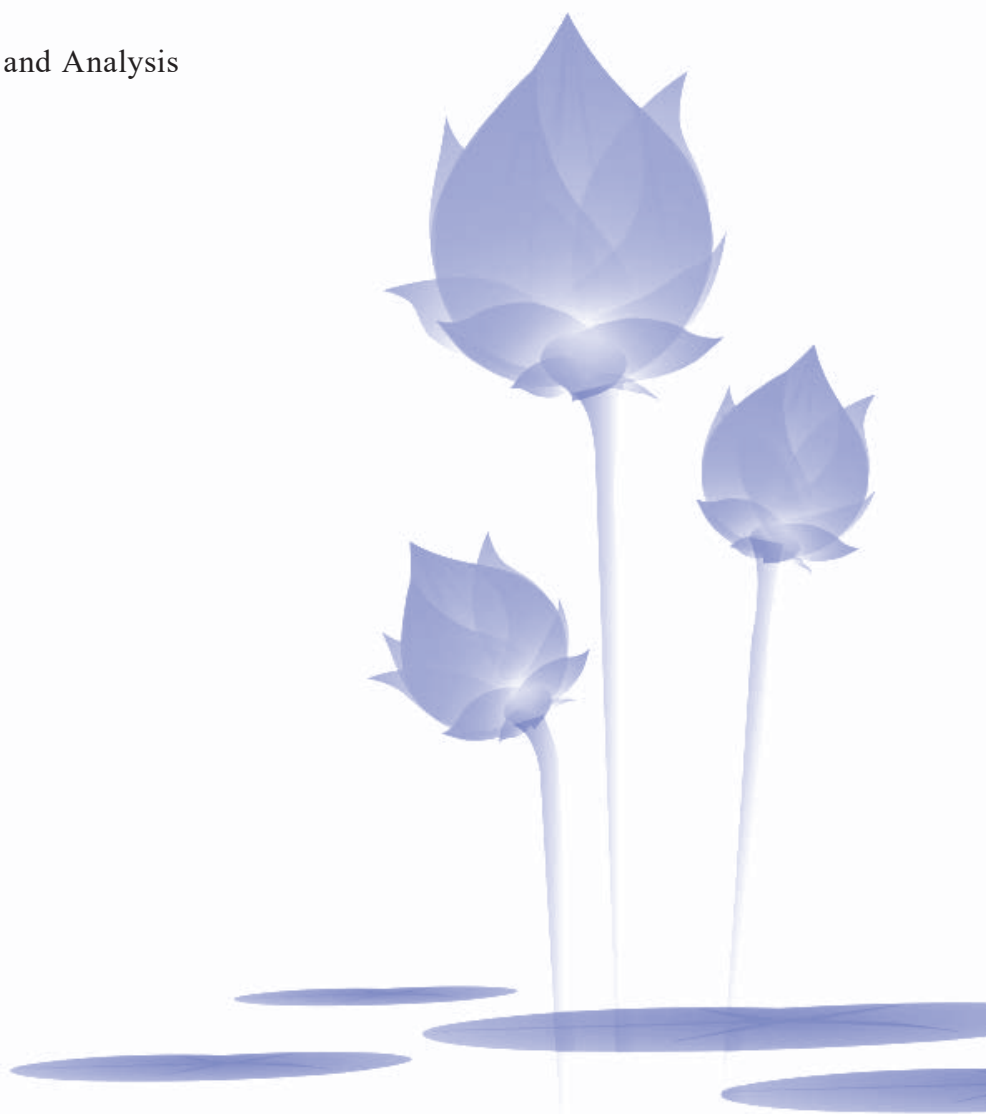
中漆集團有限公司
CPM GROUP LIMITED

(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*)

Mak Chi Wah (*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
Certified Public Accountants
Registered Public Interest Entity Auditor
27th Floor, One Taikoo Place, 979 King's Road
Quarry Bay, Hong Kong

SHARE REGISTRARS

Hong Kong

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road, 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
Nanyang Commercial Bank, 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 condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2022 together with comparative amounts for the corresponding period in 2021. The condensed consolidated interim financial statements have not been audited, but have been reviewed by the Board’s audit committee.

Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2022

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

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2022

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

Condensed Consolidated Statement of Financial Position

30 June 2022

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

Condensed Consolidated Statement of Financial Position

30 June 2022

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

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2022

	Attributable to owners of the parent														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	Share option reserve (Unaudited) HK\$'000	Reserve funds ^{**} (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interest (Unaudited) HK\$'000															
At 1 January 2022	100,000	94,614	(15,017)	2,630	(28,616)	(500)	32,759	10,485	32,778	-	29,819	270,624	529,576	3,538	533,114														
Loss for the period	-	-	-	-	-	-	-	-	-	-	-	(50,384)	(50,384)	(136)	(50,520)														
Other comprehensive loss for the period:																													
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(30,723)	-	-	-	(30,723)	(149)	(30,872)														
Total comprehensive loss for the period	-	-	-	-	-	-	-	-	(30,723)	-	-	(50,384)	(81,107)	(285)	(81,392)														
Equity-settled share option arrangements	-	-	-	-	-	-	-	-	-	4,303	-	-	4,303	-	4,303														
At 30 June 2022	100,000	94,614 [^]	(15,017) [#]	2,630 [#]	(28,616) [#]	(500) [#]	32,759 [#]	10,485 [#]	2,055 [#]	4,303 [#]	29,819 [#]	220,240 [#]	452,772	3,253	456,025														

	Attributable to owners of the parent														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	Non-controlling interest (Unaudited) HK\$'000															
At 1 January 2021	100,000	94,614	(15,017)	2,630	(28,616)	(500)	32,759	10,485	14,196	28,866	340,978	580,395	3,358	583,753														
Profit/(loss) for the period	-	-	-	-	-	-	-	-	-	-	(16,791)	(16,791)	104	(16,687)														
Other comprehensive income for the period:																												
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	5,483	-	-	5,483	26	5,509														
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	-	-	5,483	-	(16,791)	(11,308)	130	(11,178)														
Final 2020 dividend declared and paid	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)	-	(10,000)														
At 30 June 2021	100,000	94,614 [^]	(15,017) [#]	2,630 [#]	(28,616) [#]	(500) [#]	32,759 [#]	10,485 [#]	19,679 [#]	28,866 [#]	314,187 [#]	559,087	3,488	562,575														

** 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\$352,772,000 (30 June 2021: HK\$459,087,000) in the unaudited condensed consolidated statement of financial position.

^ The capital contribution reserve represents equity-settled share option expenses 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 2022

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit/(loss) before working capital changes	(28,124)	313
Decrease/(increase) in inventories	12,007	(26,286)
Decrease/(increase) in trade and bills receivables	24,713	(13,887)
Decrease/(increase) in prepayments, deposits and other receivables	1,112	(7,299)
Increase/(decrease) in trade and bills payables	(80,711)	7,791
Decrease in other payables and accruals	(9,114)	(20,386)
Exchange realignment	(2,814)	70
	<hr/>	<hr/>
Cash used in operations	(82,931)	(59,684)
Interest paid	(2,188)	(2,129)
Interest element of lease payments	(83)	(57)
Overseas taxes refund/(paid)	216	(740)
	<hr/>	<hr/>
Net cash flows used in operating activities	(84,986)	(62,610)
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(1,358)	(7,319)
Proceeds from disposal of items of property, plant and equipment	309	147
Interest received	1,058	720
Deposits paid for purchases of property, plant and equipment	(16,443)	(1,649)
Decrease/(increase) in pledged time deposits with original maturity of more than three months when acquired, net	5,691	(7,964)
	<hr/>	<hr/>
Net cash flows used in investing activities	(10,743)	(16,065)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	206,421	104,111
Repayment of bank loans	(189,958)	(95,628)
Dividend paid	–	(10,000)
Principal portion of lease payments	(1,704)	(2,075)
	<hr/>	<hr/>
Net cash flows from/(used in) financing activities	14,759	(3,592)
	<hr/>	<hr/>

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(80,970)	(82,267)
Cash and cash equivalents at beginning of period	196,094	236,412
Effect of foreign exchange rate changes, net	(3,985)	1,199
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	111,139	155,344
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	111,139	143,169
Non-pledged time deposits with original maturity of less than three months when acquired	–	12,175
	<hr/>	<hr/>
Cash and cash equivalents as stated in the condensed consolidated statement of financial position and the condensed consolidated statement of cash flows	111,139	155,344
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Notes to the Condensed Consolidated Financial Statements

1.1 BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2021.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial statements.

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

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

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

Notes to the Condensed Consolidated Financial Statements

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:
- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.
 - HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2. OPERATING SEGMENT INFORMATION

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

Geographical information

- (a) Revenue from external customers

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

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

- (b) Non-current assets

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
	Hong Kong	1,894
Mainland China	348,200	355,344
	<u>350,094</u>	<u>358,113</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 2022 and 2021, 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, NET

An analysis of revenue is as follows:

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
<i>Revenue from contracts with customers</i>	310,152	403,797

Disaggregated revenue information

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

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

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

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

^ During the six months ended 30 June 2022, government subsidies were granted from the 2022 Employment Support Scheme under the Anti-epidemic Fund of the Hong Kong government. There are no unfulfilled conditions or contingencies relating to these government subsidies.

Notes to the Condensed Consolidated Financial Statements

4. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Interest on bank loans	2,265	2,084
Interest expense on lease liabilities	83	57
	<u>2,348</u>	<u>2,141</u>

5. LOSS BEFORE TAX

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

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

* These balances are included in "Other income and gains, net" for gains and "Other expenses, net" for losses in the unaudited condensed consolidated statement of profit or loss.

[®] The balance is included in "Cost of sales" in the unaudited condensed consolidated statement of profit or loss.

6. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2021: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

All subsidiaries of the Group established in Mainland China are subject to the PRC corporate income tax at a standard rate of 25% (six months ended 30 June 2021: 25%) during the period, except for a subsidiary of the Group which qualified as a PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (six months ended 30 June 2021: 15%) had been applied during the period.

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\$50,384,000 (six months ended 30 June 2021: HK\$16,791,000) and the weighted average number of ordinary shares of 1,000,000,000 (six months ended 30 June 2021: 1,000,000,000) in issue during the period.

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

8. DIVIDEND

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

9. PROPERTY, PLANT AND EQUIPMENT

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

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

10. INVESTMENT PROPERTIES

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

The Group's investment properties are industrial properties located in Xuzhou and Shanghai, the PRC. The Directors have determined that the investment properties consist of one class of asset, i.e. industrial in the PRC, based on the nature, characteristics and risks of the properties. The Group's investment properties were revalued on 30 June 2022 based on the valuations performed by BMI Appraisals Limited, an independent professionally qualified valuer, at HK\$78,845,000. The Group's finance department which reports directly to the senior management selects an external valuer to be responsible for the external valuation of the Group's properties based on market knowledge, reputation and independence of the external valuer, and whether professional standards are maintained by the external valuer. Fair values of the Group's investment properties are generally derived by using the income capitalisation method. The Group's finance department has discussion with the external valuer on the valuation assumptions and valuation results when the valuations were 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 rents adopted in the valuation have been assessed with reference to recent lettings, within the subject properties and other comparable properties. Capitalisation rates are estimated by the valuer based on the risk profile of the properties being valued.

Notes to the Condensed Consolidated Financial Statements

10. INVESTMENT PROPERTIES (continued)

Fair value hierarchy

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

Investment properties held by the Group	Fair value hierarchy	Valuation technique	Significant unobservable inputs	Range as at	
				30 June 2022	31 December 2021
Industrial properties in Mainland China	Level 3	Income capitalisation method	Prevailing markets rents (per sq.m. and per month) Capitalisation rates	RMB22 and RMB47 5.5% to 6.0%	RMB22 and RMB46 5.5% to 6.0%

During the six months ended 30 June 2022, 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 income capitalisation method, 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 properties. 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 properties.

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

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

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 is normally required. The credit period is generally one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivables balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Within three months	170,590	195,459
Over three months and within six months	63,720	117,589
Over six months	164,641	127,105
	398,951	440,153

12. TRADE AND BILLS PAYABLES

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

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

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

Notes to the Condensed Consolidated Financial Statements

13. SHARE OPTION SCHEME

On 15 June 2022, 80,000,000 share options to subscribe for a total of 80,000,000 new shares of the Company of HK\$0.10 each were granted to three Directors and five employees of the Group under the share option scheme (the "Scheme") adopted by the Company on 4 June 2020 (the "Adoption Date"). The Scheme was adopted by the Company for the purpose of providing incentives to attract and retain employees of the Group, as well as other eligible persons (including, but not limited to, executive Directors, non-executive Directors and independent non-executive Directors, any supplier of goods or services to any member and any customer of the Group) who made contributions to the Group. Unless terminated by resolution in a general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years commencing on 4 June 2020, after which period no further share options will be issued but in all other respects the provisions of the Scheme shall remain in full force and effect.

The equity-settled share options granted on 15 June 2022 vest over a period of 4 years from the date of grant, of which 50% of the share options vested immediately on the date of grant, 20% of the share options shall vest on 14 June 2023, 10% of the share options shall vest on 14 June 2024, 10% of the share options shall vest on 14 June 2025 and 10% of the share options shall vest on 14 June 2026. These share options are exercisable at HK\$0.335 per share and must be exercised within 5 years from the date of grant, and if not so exercised, the share options shall lapse.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceeds 10% of the total issued shares of the Company as at the Adoption Date. The maximum number of shares issued and which may fall to be issued upon exercise of the share options granted under the Scheme and any other share option schemes of the Company (including both exercised and outstanding share options) and such shares which were subsequently cancelled, to each eligible participant in any 12-month period up to the date of offer shall not exceed 1% of the number of shares in issue as at the date of offer. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the shareholders at a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates under the Scheme and any other share option schemes of the Company or any of its subsidiaries are subject to approval by the independent non-executive Directors (excluding independent non-executive Director who is the grantee of the share options). In addition, any share options granted to a substantial shareholder of the Company or an independent non-executive Director, or to any of their respective associates, representing in aggregate over 0.1% of the shares of the Company in issue on the date of offer and having an aggregate value (based on the closing price of the Company's shares on the date of offer) in excess of HK\$5 million, in the 12-month period up to and including the date of offer, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options must be accepted not later than 21 days after the date of offer and the amount payable by the grantees to the Company on acceptance of the offer for the grant of a share option is HK\$1.00. The period during which the share option may be exercised will be determined by the Board in its absolute discretion.

The exercise price of share options is determinable by the Board, but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of offer in respect of such share option; (ii) the average closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five business days immediately preceding the date of offer in respect of such share option; and (iii) the nominal value of the Company's share.

Share options do not confer rights on the holders to dividends or to vote in any general meetings of the Company.

Notes to the Condensed Consolidated Financial Statements

13. SHARE OPTION SCHEME (continued)

The summary below sets forth the details of movement of share options granted as at 30 June 2022 pursuant to the Scheme:

	Date of grant	Exercise period (Note)	Exercise price per share HK\$	Number of share options				Outstanding as at 30 June 2022
				Outstanding as at 1 January 2022	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	
Executive Directors								
Tsui Ho Chuen, Philip	15 June 2022	15 June 2022 to 14 June 2027	0.335	-	10,000,000	-	-	10,000,000
Li Guangzhong	15 June 2022	15 June 2022 to 14 June 2027	0.335	-	10,000,000	-	-	10,000,000
Non-executive Director								
Chong Chi Kwan	15 June 2022	15 June 2022 to 14 June 2027	0.335	-	10,000,000	-	-	10,000,000
Employees	15 June 2022	15 June 2022 to 14 June 2027	0.335	-	50,000,000	-	-	50,000,000
Total				-	80,000,000	-	-	80,000,000

Note:

The share options granted to each of the grantees have the vesting period and would be exercisable as follows:

- 50% of the share options vested on the date of grant of the share options, i.e. 15 June 2022 and would be exercisable from 15 June 2022 to 14 June 2027;
- 20% of the share options shall vest on one day before the first anniversary of the date of grant of the share options, i.e. 14 June 2023 and would be exercisable from 15 June 2023 to 14 June 2027;
- 10% of the share options shall vest on one day before the second anniversary of the date of grant of the share options, i.e. 14 June 2024 and would be exercisable from 15 June 2024 to 14 June 2027;
- 10% of the share options shall vest on one day before the third anniversary of the date of grant of the share options, i.e. 14 June 2025 and would be exercisable from 15 June 2025 to 14 June 2027; and
- the remaining 10% of the share options shall vest on one day before the fourth anniversary of the date of grant of the share options, i.e. 14 June 2026 and would be exercisable from 15 June 2026 to 14 June 2027.

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

The fair value of the share options granted on 15 June 2022 was HK\$8,417,000 (HK\$0.1 each) (30 June 2021: Nil), of which the Group recognised share option expenses of HK\$4,303,000 during the six months ended 30 June 2022 (30 June 2021: Nil).

Notes to the Condensed Consolidated Financial Statements

13. SHARE OPTION SCHEME (continued)

The fair value of equity-settled share options granted during the six months ended 30 June 2022 was estimated as at the date of grant, using a Binomial Option Pricing Model (the "Model"), taking into account the terms and conditions upon which the share options were granted. The Model is one of the commonly used models to estimate the fair value of an option. The value of a share option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. The following table lists the inputs to the Model used:

Dividend yield (%)	1.483
Expected volatility (%)	35.732
Risk-free interest rate (%)	3.172
Contractual life of options (year)	5
Early exercise behaviour (%)	220 and 280 of the exercise price
Exercise price (HK\$ per share)	0.335

No other feature of the share options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 80,000,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 80,000,000 additional ordinary shares of the Company and additional share capital of HK\$26,800,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 80,000,000 share options outstanding under the Scheme, which represented 8% of the Company's shares in issue as at that date.

14. CAPITAL COMMITMENTS

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

	30 June 2022 (Unaudited) HK\$'000	31 December 2021 (Audited) HK\$'000
Contracted, but not provided for:		
Construction and purchases of items of property, plant and equipment	<u>2,962</u>	<u>3,822</u>

Notes to the Condensed Consolidated Financial Statements

15. RELATED PARTY TRANSACTIONS

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

	Notes	Six months ended 30 June	
		2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Lease payments paid to the Remaining Group	(i)	1,420	1,415
Pledge fees paid to the Remaining Group	(ii)	707	530
		2,127	1,945

- (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.
- (ii) Pledge fees were charged by the Remaining Group for pledging certain properties in Hong Kong as securities for certain banking facilities granted to the Group at mutually agreed fees.
- (b) The transactions in respect of items (a)(i) and (a)(ii) above are also continuing connected transactions of the Company as defined under Chapter 14A of the Listing Rules, which are exempted from reporting, annual review and independent shareholders' approval under Chapter 14A of the Listing Rules.
- (c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2022 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000
Short-term employee benefits	4,615	4,884
Post-employment benefits	250	276
Equity-settled share option expenses	1,076	–
Total compensation paid/payable to key management personnel	5,941	5,160

Notes to the Condensed Consolidated Financial Statements

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and interest-bearing bank borrowings 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 Board 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 following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	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	
At 30 June 2022				
Equity investment designated at fair value through other comprehensive income	–	300	–	300
	Quoted prices in active markets (Level 1) (Audited) HK\$'000	Significant observable inputs (Level 2) (Audited) HK\$'000	Significant unobservable inputs (Level 3) (Audited) HK\$'000	Total (Audited) HK\$'000
At 31 December 2021				
Equity investment designated at fair value through other comprehensive income	–	300	–	300

Liabilities measured at fair value:

The Group did not have any financial liabilities measured at fair value as at 30 June 2022 and 31 December 2021.

During the period, 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 2021: Nil).

17. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board on 30 August 2022.

Management Discussion and Analysis

BUSINESS REVIEW

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

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

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

Management Discussion and Analysis

BUSINESS REVIEW (continued)

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

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

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

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

Management Discussion and Analysis

BUSINESS REVIEW (continued)

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

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

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

Management Discussion and Analysis

REVIEW OF OPERATIONS

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

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

Revenue

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

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

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

Management Discussion and Analysis

REVIEW OF OPERATIONS (continued)

Revenue (continued)

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

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

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

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

Stable in revenue generated from the industrial manufacturers in Mainland China

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

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

Management Discussion and Analysis

REVIEW OF OPERATIONS (continued)

Revenue (continued)

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

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

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

Geographical distribution of revenue

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

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

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

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

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

Management Discussion and Analysis

REVIEW OF OPERATIONS (continued)

Cost of Sales

Cost of raw materials

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

Direct and indirect labour cost

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

Depreciation and production overhead

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

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

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

Management Discussion and Analysis

REVIEW OF OPERATIONS (continued)

Other Income and Gains, Net

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

Selling and Distribution Expenses and Administrative Expenses

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

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

Other Expenses, net

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

Management Discussion and Analysis

FINANCIAL REVIEW

Liquidity and Indebtedness

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

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

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

For the six months ended 30 June 2022, the inventory turnover days¹ were 48 days, which was slightly different from that of 44 days for the year ended 31 December 2021. The trade and bills receivables turnover days² increased to 233 days for the six months ended 30 June 2022 from 192 days for the year ended 31 December 2021. The longer trade receivables turnover days for the six months ended 30 June 2022 was primarily due to the 23.2% decrease in the revenue and the significant increase in the outstanding amounts which were past due over six months.

¹ The calculation of inventory turnover days is based on the closing balance of inventories divided by the cost of sales times 181 days (31 December 2021: 365 days).

² The calculation of trade and bills receivables turnover days is based on the closing balance of trade and bills receivables divided by the revenue times 181 days (31 December 2021: 365 days).

Management Discussion and Analysis

FINANCIAL REVIEW (continued)

Equity and Net Asset Value

Shareholders' funds of the Company as at 30 June 2022 amounted to HK\$452.77 million, as compared to HK\$529.58 million as at 31 December 2021. Net asset value per share as at 30 June 2022 amounted to HK\$0.46, as compared to HK\$0.53 as at 31 December 2021. Fluctuations in the foreign currency exchange rates between Hong Kong dollars (the reporting currency) and Renminbi could have a significant impact and may lead to volatility in the operating results of the Group.

Contingent Liabilities

As at 30 June 2022, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was HK\$232.54 million, as compared to HK\$216.08 million as at 31 December 2021.

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

Pledge of Assets

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

STAFF

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

Management Discussion and Analysis

BUSINESS PLANS AND OUTLOOK

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

1. Pricing strategies

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

2. Establishing a projected raw materials level

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

3. Standardisation in packaging

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

Management Discussion and Analysis

BUSINESS PLANS AND OUTLOOK (continued)

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

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

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

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

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

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

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

Management Discussion and Analysis

USE OF NET PROCEEDS FROM THE SHARE OFFER

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

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

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

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

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

Other Information

INTERIM DIVIDEND

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

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 2022, the interests of the Directors in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") were as follows:

Name	Capacity	Number of shares				Number of underlying shares (Note)	Total	Percentage of the total number of shares in issue
		Personal interests	Family interests	Corporate interests	Other interests			
Tsui Ho Chuen, Philip	Beneficial owner	-	-	-	-	10,000,000	10,000,000	1.00%
Li Guangzhong	Beneficial owner	-	-	-	-	10,000,000	10,000,000	1.00%
Chong Chi Kwan	Beneficial owner	-	-	-	-	10,000,000	10,000,000	1.00%

Note: This represented the aggregate number of share options granted to the Directors by the Company (being regarded as unlisted physically settled equity derivatives) under the Scheme. Further details of the share options are set out in the section headed "Share Options" below.

Save as disclosed above, as at 30 June 2022, 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 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 as contained in Appendix 10 to the Listing Rules (the "Model Code"), 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.

Other Information

SHARE OPTIONS

Details of the movements in the share options granted by the Company under the Scheme during the review period are as follows:

Name	Date of grant	Exercise period	Exercise price per share HK\$	Number of share options				
				Outstanding as at 1 January 2022	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Outstanding as at 30 June 2022
Directors								
Tsui Ho Chuen, Philip	15 June 2022	15 June 2022 to 14 June 2027	0.335	-	10,000,000	-	-	10,000,000
Li Guangzhong	15 June 2022	15 June 2022 to 14 June 2027	0.335	-	10,000,000	-	-	10,000,000
Chong Chi Kwan	15 June 2022	15 June 2022 to 14 June 2027	0.335	-	10,000,000	-	-	10,000,000
Employees	15 June 2022	15 June 2022 to 14 June 2027	0.335	-	50,000,000	-	-	50,000,000
				-	80,000,000	-	-	80,000,000

Notes:

- (1) The share options granted have the vesting period and would be exercisable as follows:
 - (a) 50% of the share options vested on and would be exercisable from the date of grant of the share options, i.e. 15 June 2022;
 - (b) 20% of the share options shall vest on one day before the first anniversary of the date of grant of the share options, i.e. 14 June 2023 and would be exercisable from 15 June 2023;
 - (c) 10% of the share options shall vest on one day before the second anniversary of the date of grant of the share options, i.e. 14 June 2024 and would be exercisable from 15 June 2024;
 - (d) 10% of the share options shall vest on one day before the third anniversary of the date of grant of the share options, i.e. 14 June 2025 and would be exercisable from 15 June 2025; and
 - (e) the remaining 10% of the share options shall vest on one day before the fourth anniversary of the date of grant of the share options, i.e. 14 June 2026 and would be exercisable from 15 June 2026.
- (2) The closing price of the shares of the Company on 14 June 2022, being the date immediately before the date on which the above share options were granted under the Scheme, was HK\$0.335.
- (3) Details of the value of the share options granted under the Scheme are set out in note 13 to the financial statements.

Other Information

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2022, 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 2022 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.

CORPORATE GOVERNANCE

The Board recognises the importance of and benefit from good corporate governance practices and has devoted considerable efforts to develop the best corporate governance practices appropriate to the businesses of the Group. Throughout the six months ended 30 June 2022, the Company has applied the principles and complied with the code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in the information of the Directors are as follows:

- (1) A discretionary bonus of RMB100,000 was approved and paid to Mr. Wong Anders ("Mr. Wong") in July 2022.
- (2) Mr. Wong resigned as an executive Director with effect from 1 August 2022.
- (3) Mr. Mak Chi Wah has been appointed as an executive Director with effect from 1 August 2022.

Other Information

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 2022.

On behalf of the Board

CPM Group Limited

Lam Ting Ball, Paul

Chairman

Hong Kong, 30 August 2022