中漆集團有限公司
CPM GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1932)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2021	2020	Change
Results	**HK$'000**	HK$'000	%
Revenue	**838,066**	712,886	17.6
Gross profit	**166,267**	215,951	-23.0
Gross profit margin	**19.8%**	30.3%	-34.7
Loss attributable to shareholders of the Company	**(59,533)**	(10,801)	451.2
Loss per share (HK cents) Basic and diluted	**(5.95)**	(1.08)	451.2

	As at 31 December 2021	As at 31 December 2020	Change
Financial Position	**HK$'000**	HK$'000	%
Cash and cash equivalents, structured deposits and pledged deposits	**238,402**	242,370	-1.6
Bank borrowings	**216,077**	215,301	0.4
Gearing ratio	**40.8%**	37.1%	10.0
Net asset value per share (HK$)	**0.53**	0.58	-8.6

The board (the "Board") of directors (the "Directors") of CPM Group Limited (the "Company") announces the consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2021 together with comparative amounts for the corresponding year in 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2021

	Notes	**2021** **HK$'000**	2020 HK$'000
REVENUE	4	**838,066**	712,886
Cost of sales		**(671,799)**	(496,935)
Gross profit		**166,267**	215,951
Other income and gains, net	4	**12,167**	22,318
Selling and distribution expenses		**(107,251)**	(97,867)
Administrative expenses		**(106,029)**	(107,249)
Other expenses, net		**(22,037)**	(39,699)
Finance costs	5	**(4,342)**	(6,092)
LOSS BEFORE TAX	6	**(61,225)**	(12,638)
Income tax credit	7	**1,780**	1,903
LOSS FOR THE YEAR		**(59,445)**	(10,735)
ATTRIBUTABLE TO:			
Owners of the parent		**(59,533)**	(10,801)
Non-controlling interest		**88**	66
		(59,445)	(10,735)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	**HK (5.95) cents**	HK (1.08) cents

Details of the proposed dividend for the year are disclosed in note 9.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	2021	2020
	HK$'000	HK$'000
LOSS FOR THE YEAR	**(59,445)**	(10,735)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**18,674**	48,554
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement of net pension scheme assets	**132**	773
Gain on property revaluation	**–**	28,624
Income tax effect	**–**	(7,156)
	–	21,468
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**132**	22,241
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**18,806**	70,795
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(40,639)**	60,060
ATTRIBUTABLE TO:		
Owners of the parent	**(40,819)**	59,780
Non-controlling interest	**180**	280
	(40,639)	60,060

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	**2021** **HK$'000**	2020 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**191,118**	197,029
Investment properties	10	**81,703**	79,830
Right-of-use assets		**80,442**	82,554
Equity investment designated at fair value through other comprehensive income		**300**	300
Deposits for purchases of property, plant and equipment		**4,850**	815
Deposits		**282**	–
Net pension scheme assets		**5,548**	5,464
Deferred tax assets		**16,537**	16,213
Total non-current assets		**380,780**	382,205
CURRENT ASSETS			
Inventories		**81,077**	70,726
Trade and bills receivables	11	**440,153**	385,374
Prepayments, deposits and other receivables		**63,068**	64,708
Structured deposits		**–**	5,958
Pledged deposits		**42,308**	–
Cash and cash equivalents		**196,094**	236,412
Total current assets		**822,700**	763,178
CURRENT LIABILITIES			
Trade and bills payables	12	**352,404**	224,530
Other payables and accruals		**73,351**	89,226
Interest-bearing bank borrowings		**216,077**	215,301
Lease liabilities		**2,762**	2,933
Tax payable		**10,242**	10,320
Total current liabilities		**654,836**	542,310
NET CURRENT ASSETS		**167,864**	220,868
TOTAL ASSETS LESS CURRENT LIABILITIES		**548,644**	603,073

	2021 HK$'000	2020 HK$'000
NON-CURRENT LIABILITIES		
Lease liabilities	**710**	1,780
Deferred tax liabilities	**13,818**	16,259
Deferred income	**1,002**	1,281
Total non-current liabilities	**15,530**	19,320
Net assets	**533,114**	583,753
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**100,000**	100,000
Reserves	**429,576**	480,395
	529,576	580,395
Non-controlling interest	**3,538**	3,358
Total equity	**533,114**	583,753

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 19 September 2016. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is situated at 31st Floor, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong.

During the year, the Group was engaged in the manufacture and sale of paint and coating products, and investment holding.

In the opinion of the Directors, CNT Group Limited, a company incorporated in Bermuda and listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), is the ultimate holding company of the Company.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, an equity investment, structured deposits and net pension scheme assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK$”) and all values are rounded to the nearest thousand (“HK$’000”) except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year’s financial statements.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)

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

(a) Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("RFR"). The amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy.

    The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars based on the Hong Kong Interbank Offered Rate ("HIBOR") as at 31 December 2021. If the interest rates of these borrowings and interest rate swap are replaced by RFRs in a future period, the Group will apply the above-mentioned practical expedient upon the modification of these instruments provided that the "economically equivalent" criterion is met.

(b) Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the coronavirus disease 2019 (the "COVID-19") pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

    The Group has early adopted the amendment on 1 January 2021. However, the Group has not received the COVID-19-related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

3. 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

	2021	2020
	HK$'000	HK$'000
Hong Kong	**67,075**	68,078
Mainland China	**770,991**	644,808
	838,066	712,886

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

(b) Non-current assets

	2021	2020
	HK$'000	HK$'000
Hong Kong	**2,769**	2,563
Mainland China	**355,344**	357,665
	358,113	360,228

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 years ended 31 December 2021 and 2020, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

4. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2021	2020
	HK$'000	HK$'000
Revenue from contracts with customers	**838,066**	712,886

Disaggregated revenue information

	2021	2020
	HK$'000	HK$'000
Type of paint and coating products sold		
Industrial paint and coating products	**301,204**	275,470
Architectural paint and coating products	**404,887**	316,282
General paint and coating and ancillary products	**131,975**	121,134
	838,066	712,886
Timing of revenue recognition		
Goods transferred at a point in time	**838,066**	712,886

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

	2021	2020
	HK$'000	HK$'000
Other income and gains, net		
Bank interest income	**1,500**	1,234
Interest income from structured deposits	**112**	–
Government grants*	**3,955**	2,847
Government subsidies^	**–**	2,872
Gain on deposits paid for purchases of property, plant and equipment#	**–**	9,350
Gain on disposal of items of property, plant and equipment, net	**116**	474
Recognition of deferred income	**308**	287
Rental income from investment properties	**4,453**	2,016
Other rental income	**507**	1,967
Others	**1,216**	1,271
	12,167	22,318

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

^ Government subsidies were granted from the Employment Support Scheme under the Anti-epidemic Fund of the Hong Kong government. As a condition of receiving the subsidies from the Employment Support Scheme, the Group undertook not to make redundancies until 30 November 2020.

During the year ended 31 December 2020, a termination agreement was signed between the government of Xinfeng, Guangdong, the PRC and an indirect wholly-owned subsidiary of the Company, to terminate the previous signed acquisition agreement (i.e. a parcel of land located in Xinfeng). The Xinfeng government paid a compensation of approximately Renminbi ("RMB") 15,000,000 (equivalent to approximately HK$16,813,000) for several initial payments made by the indirect wholly-owned subsidiary of the Company. The aggregate carrying amount of such several initial payments was approximately RMB6,658,000 (equivalent to approximately HK$7,463,000).

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2021 **HK$'000**	2020 HK$'000
Interest on bank loans	**4,244**	5,990
Interest expense on lease liabilities	**98**	102
	4,342	6,092

6. LOSS BEFORE TAX

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

	2021 **HK$'000**	2020 HK$'000
Cost of inventories sold	**671,799**	496,935
Depreciation of property, plant and equipment	**24,921**	22,450
Depreciation of right-of-use assets	**6,745**	6,274
Foreign exchange differences, net*	**283**	1,050
Write-down/(reversal of provision) of inventories to net realisable value, net[@]	**(244)**	595
Gain on deposits paid for purchases of property, plant and equipment*	**–**	(9,350)
Provision for/(reversal of provision for) impairment of trade receivables*	**4,566**	(462)
Staff termination cost*	**2,702**	18,926
Provision for impairment of property, plant and equipment*	**–**	5,011
Fair value loss on investment properties*	**242**	1,468
Gain on disposal of items of property, plant and equipment, net*	**(116)**	(474)
Write-off of items of property, plant and equipment*	**295**	274

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

@ The balance is included in "Cost of sales" in the consolidated statement of profit or loss.

7. 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 year (2020: 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% (2020: 25%) during the year, 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% (2020: 15%) had been applied during the year.

	2021	2020
	HK$'000	HK$'000
Current – Elsewhere		
Charge for the year	**995**	793
Overprovision in prior years	**–**	(1,097)
Deferred	**(2,775)**	(1,599)
Total tax credit for the year	**(1,780)**	(1,903)

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

The calculation of basic and diluted loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of HK$59,533,000 (2020: HK$10,801,000) and the weighted average number of ordinary shares of 1,000,000,000 (2020: 1,000,000,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2021 and 2020.

9. DIVIDEND

	2021	2020
	HK$'000	HK$'000
Proposed final – Nil (2020: HK1.0 cent per ordinary share)	**–**	10,000

The Directors have resolved not to declare a final dividend for the year ended 31 December 2021.

At the annual general meeting held on 26 May 2021, the Company's shareholders approved the distribution of the final dividend for the year ended 31 December 2020 of HK1.0 cent per share which amounted to HK$10,000,000.

10. INVESTMENT PROPERTIES

	2021	2020
	HK$'000	HK$'000
Carrying amount at 1 January	**79,830**	15,393
Fair value loss	**(242)**	(1,468)
Transfer from an owner-occupied property	**–**	33,765
Transfer from leasehold land	**–**	27,575
Exchange realignment	**2,115**	4,565
Carrying amount at 31 December	**81,703**	79,830

The Group's investment properties were revalued on 31 December 2021 based on a valuation performed by BMI Appraisals Limited, an independent professionally qualified valuer, at HK$81,703,000. Fair values of the Group's investment properties are generally derived by using the income capitalisation method.

11. TRADE AND BILLS RECEIVABLES

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

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

	2021	2020
	HK$'000	HK$'000
Within three months	**195,459**	229,186
Over three months and within six months	**117,589**	85,485
Over six months	**127,105**	70,703
	440,153	385,374

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:

	2021	2020
	HK$'000	HK$'000
Within three months	**328,097**	204,398
Over three months and within six months	**24,265**	19,878
Over six months	**42**	254
	352,404	224,530

The trade payables are unsecured, non-interest-bearing and are normally settled within two months. As at 31 December 2021, bills payable with an aggregate carrying amount of HK$136,543,000 (31 December 2020: Nil) were secured by time deposits of HK$40,963,000 (31 December 2020: Nil).

DIVIDEND

The Directors have resolved not to declare a final dividend for the year ended 31 December 2021 (2020: HK1.0 cent per share).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' eligibility to attend and vote at the forthcoming annual general meeting of the Company, the register of members of the Company will be closed from Monday, 30 May 2022 to Thursday, 2 June 2022, both days inclusive, during the period no transfer of shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 27 May 2022.

CHAIRMAN'S STATEMENT

OVERVIEW

The COVID-19 variant, Omicron, has emerged and spread swiftly around the world since the last quarter of 2021. In spite of the ongoing COVID-19 pandemic, the global economy made a modest recovery in 2021. According to the International Monetary Fund, the global economic growth, as measured by the growth rate of the countries' real gross domestic product ("GDP"), was expected to be 5.9% in 2021. Among which, China was expected to record the highest GDP growth rate of 8.1%, as compared to those of the United States, Japan, South Korea, Vietnam and Germany of 5.6%, 0.7%, 4.2%, 5.2% and 1.8%, respectively. In 2021, China's economy rebounded following the implementation of effective economic measures by the Chinese government. Such early economic recovery was generally favourable to China and allowed it to capture the increasing demand from the disruptions of the global supply chain. The economic recovery in Mainland China in 2021 was proven by the continuous growth in the consumption expenditure, net export of goods and services and the gross domestic capital at 11%, 117% and 12%, respectively, as compared to the economic performance in 2020, according to the information published by the National Bureau of Statistics of China (the "NBSC"). Prices of imported raw materials and local raw materials in Mainland China also increased significantly in 2021, mainly due to the increasing demands in the domestic market and the global supply chain disruptions, which were primarily caused by the disrupted shipment schedules and the shortage in the international shipment capacity.

In addition, according to the information published by the NBSC, in terms of the tertiary industry classification, the paint and coating industry is integrated into the manufacturing industry sector of the secondary industry. The nominal GDP of the secondary industry and the nominal GDP of the industry sector increased by 17.6% and 19.1%, respectively, in 2021, as compared to the same in 2020. The growth rate of the Group's revenue for the year ended 31 December 2021 was in line with the growth rate of the manufacturing industry sector. The revenue growth of the Group was principally attributable to the resumption of the economic activities in China in 2021 and the Group's efforts in engaging new customers and enhancing the sales to the existing customers.

Furthermore, the growth rate of the real estate industry was 5.6% in 2021, while the growth rate of the building and construction industry sector was 10.6% in 2021. In particular, the cumulative construction area of construction-in-progress in the real estate industry in China increased by 5.2% in 2021, as compared to an increase of 3.7% in 2020, while the cumulative completion area increased by 11.2% in 2021, as compared to a 4.9% decrease in 2020. The Group's revenue generated from the customers in the construction industry and from property and infrastructure projects in Mainland China significantly increased by 29.0%, which was outperforming the industry performance. On the other hand, according to the 2021 Gross Domestic Product published by the Census and Statistics Department (the "C&SD") in Hong Kong, the gross domestic fixed capital formation (the "GDFCF") of the private sector and the public sector in the building and construction industry in Hong Kong increased by 1.9% in 2021, as compared to a decrease of 8.7% in 2020. Such increase was primarily due to the fact that the expenditure on some building and construction projects in Hong Kong has been deferred or were cancelled, as a result of the COVID-19 pandemic. The Group's revenue generated from the building and construction in Hong Kong decreased by approximately 17.2% in 2021, as compared to a 32.0% decrease in 2020.

The nominal GDP of the wholesale and retail trade sector in China in 2021 increased by 15.0%, according to the information published by the NBSC, as compared to the corresponding year in 2020. Retail sales of furniture goods (including the paint and coating products for furniture manufacturing purpose) increased by 4.3% in 2021, as compared to a decrease of 18.9% in 2020, while the retail sales of the construction and decorative paint and coating products increased by 12.5% in 2021, as compared to the decrease of 15.1% in 2020. The Group's revenue generated from the wholesale distributors and retail distributors (the "Distributors") in Mainland China increased by 9.1% in 2021, as compared to 2020, which was within the range of the industries' performance. In Hong Kong, paint and coating products are classified as the paints and other building renovation materials in one of the other consumer goods of the retail sales. According to the Report on Monthly Survey of Retail Sales in December 2021 published by the C&SD, retail sales increased by 8.1% in 2021, as compared to a decrease of 24.3% in 2020. Comparing with the growth rate of the retail sales in Hong Kong in 2021 of 8.1%, the growth rate of the Group's sales revenue generated from the Distributors in Hong Kong for the year ended 31 December 2021 of 2.3% was 5.8% lower than the growth rate of the retail sales in Hong Kong in 2021. Comparing with the growth rate of the private sector in the building and construction in Hong Kong of 0.5%, the growth rate of the Group's sales revenue generated from the Distributors in Hong Kong of 2.3% was 1.8% higher than the growth rate of the private sector in the building and construction in Hong Kong.

On the other hand, the paint and coating industry in China suffered, which was primarily due to the surging prices of raw materials for the manufacturing of paint and coating products throughout 2021, as a result of the spiralling international crude oil prices and the adverse effect of other developments, such as the significant increases in the electricity prices and the shipping transportation rates and the disruption in the global supply chains. As compared to the year of 2020, the average international crude oil prices increased by 72% throughout 2021 and the international crude oil prices in 2021 had reached US$84 per barrel, the highest level since October 2014, it even rose to US$130 per barrel in March 2022. According to the information published by the NBSC, the crude oil import volume in China decreased by 5.4% in 2021, as compared to the increase of 7.2% in 2020. Crude oil production volume in China increased by 2.1% in 2021, as compared to the increase of 2.0% in 2020. Crude oil processing volume increased by 4.3% in 2021, as compared to the increase of 3.4% in 2020. In addition to the strong recovery demand from the real estate sector, i.e. 5.6% nominal GDP, and the building and construction sector, i.e. 10.6% nominal GDP, in China, the growth rate of the industry sector in China increased significantly to 19.1% in 2021, as compared to the increase of 0.3% in 2020. Due to the strong recovery in various industries, there were a shortage in raw materials and the delay in delivery, which resulted in the surging prices of raw materials. Purchase prices of titanium dioxide, solvent, resin and emulsion, which are the principal raw materials used in the production of paint and coating products, have increased in the range between 39% and 51%, 45% and 50%, 20% and 36% and 41% and 45%, respectively, during the first three quarters of 2021, as compared to 2020. As a result, the National Food and Strategic Reserves Administration (the "NFSRA") made an announcement on the annual rotation of refined oil products stored by China (the "Annual Rotation") on 31 October 2021, which aimed at easing the pressure of rising raw materials prices for chemical manufacturers and other industries. Following the publishing of the announcement, the prices of the principal raw materials have decreased and stabilised. Nevertheless, the percentage of the cost of sales to revenue of the Group increased to 80.2% in 2021 from 69.7% in 2020. Such general increases affect the profitability of the Group.

RESULTS

The Group implemented effective business revamp measures and initiatives and continued to make improvements in its operating results in 2021. The Group's revenue increased by 17.6% to approximately HK$838.07 million in 2021 from approximately HK$712.89 million in 2020. The percentage of all expenses (excluding the cost of sales) to revenue of the Group in 2021 has been reduced to 28.6% from 35.2% in 2020. However, as mentioned above, the paint and coating industry was facing difficulty arising from the high raw materials costs due to high international crude oil prices, a global shortage of raw materials and the disruption of the global supply chain throughout 2021. The increases in the production costs could not be covered by the increases in the selling prices. As a result, the Group's gross profit has decreased by 23.0% to approximately HK$166.27 million, while the gross profit margin decreased by 34.7% to 19.8% in 2021. The Group's loss attributable to its owners of the parent company increased to approximately HK$59.53 million in 2021 from approximately HK$10.80 million in 2020.

Despite suffering from an operational loss in 2021, the Group continued to adjust the business revamp measures for business growth and to improve its operational efficiency. As of 31 December 2021, the Group reduced the number of staff by 6.5%, as compared to the number of staff as of 31 December 2020. Other than the impact arising from the escalating prices of raw materials, the other operational aspects of the Group have shown continuous improvements.

BUSINESS OUTLOOK

The Directors believe that the Omicron variant would pose a great threat to the global economy in 2022. It is possible that the development of the global economy will slow down in 2022. Inflation rates would increase as there is increasing pressure in different aspects of the global supply chain. Besides the ongoing tensions between China and the United States, the development of the Russia-Ukraine conflict is affecting the global economy. Furthermore, the international crude oil price has surged to approximately US$130 per barrel in March 2022, as compared to the price of US$75 per barrel as at 31 December 2021. The market has expected that prices of some crude oil by-products will stay at a high level in 2022. Therefore, the prices of raw materials used in the manufacture of paint and coating products will be unanticipated. Since the events have been incurred, the change in economic conditions and political development will be shown by instabilities, uncertainties and imbalances. Amid the tough business environment, the Group will continue to keep pace with the development of the paint and coating industry in Mainland China and will implement various business initiatives cautiously in response to the surge in the crude oil prices and the shortage of crude oil by-products in the global markets.

The Group will continue to sharpen its competitive edge in branding and networking to expand the customer base in response to changing market conditions.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group's products can be broadly divided into industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products. Industrial paint and coating products are used in a wide range of applications, such as furniture painting, manufacturing and surface finishing for different kinds of materials, and are used by manufacturers, renovation contractors for property and infrastructure projects and household users. Architectural paint and coating products are used for wall, floor and exterior parts of buildings. The Group's architectural paint and coating products focus primarily on the construction and maintenance markets of the commercial and residential properties. General paint and coating and ancillary products, such as thinner, enamels and anti-mold agents and solvent agents, can be used for both architectural and industrial purposes.

REVIEW OF OPERATION

Revenue

For the year ended 31 December 2021, the Group's revenue amounted to approximately HK$838.07 million, representing a significant increase of 17.6%, as compared to the amount of revenue of approximately HK$712.89 million in 2020. The following sets forth an analysis of the Group's revenue for the years ended 31 December 2021 and 2020 by principal products:

	Year ended 31 December				
	2021		2020		% of net
	HK$'000	**%**	HK$'000	%	change
Industrial paint and coating products	**301,204**	**35.9**	275,470	38.6	9.3
Architectural paint and coating products	**404,887**	**48.3**	316,282	44.4	28.0
General paint and coating and ancillary products[1]	**131,975**	**15.8**	121,134	17.0	8.9
	838,066	**100.0**	712,886	100.0	17.6

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

Industrial paint and coating products, architectural paint and coating products, and general paint and coating and ancillary products accounted for approximately 35.9% (2020: 38.6%), 48.3% (2020: 44.4%) and 15.8% (2020: 17.0%) of the total revenue of paint and coating business in 2021 respectively. The Group continues to focus on the Mainland China market which contributed to approximately 92.0% (2020: 90.5%) of the total revenue in 2021.

Growing revenue with recovering economic activities from the COVID-19 pandemic

Total revenue of the Group in 2021 significantly increased by approximately 17.6%, as compared to a 0.1% decrease in 2020. For the year ended 31 December 2021, the amount of revenue generated from the sales of architectural paint and coating products significantly increased by approximately 28.0% or approximately HK$88.61 million, which was primarily due to (i) the continued expansion of the customer base in construction and renovation contractors for property; (ii) the effective promotion strategies of these products to the Distributors; and (iii) several upward adjustments on the Group's selling price of paint and coating products. In addition, the amount of revenue generated from the sales of industrial paint and coating products increased by approximately 9.3%, as compared to the decrease of 5.8% in 2020, mainly due to the strong demands from customers in the machinery and equipment industry, the manufacturing-metal industry and the toy manufacturing industry in Mainland China. On the other hand, the amount of revenue generated from the general paint and coating and ancillary products increased by approximately 8.9%, as compared to the decrease of 9.8% in 2020, which showed a similar recovery level in 2019.

Significant increase in the sales of the water-based paint and coating products

For the year ended 31 December 2021, the sales volume of the water-based paint and coating products of the Group increased by approximately 28.6%, as compared to the increase of 16.9% in 2020. The contribution from the water-based paint and coating products to the Group's total revenue increased by approximately 9.2% to 47.5% for the year ended 31 December 2021, as compared to the contribution of 43.5% for the year ended 31 December 2020. Such significant increase was primarily due to the ongoing endeavour of the Group to ensure customer satisfaction by continuing to communicate with their needs for the paint and coating products, as well as a continued expansion of its customer base in construction and renovation contractors for property and infrastructure projects.

Significant increase in the sales to construction and renovation contractors for property and infrastructure projects

The Group's revenue generated from solvent-based and water-based paint and coating products sold to the construction and renovation contractors for property and infrastructure projects in Mainland China increased by 29.0% to approximately HK$365.57 million for the year ended 31 December 2021, as compared to a 21.7% increase in 2020. Such increase was primarily due to the Group's continued market penetration into the property and construction industry in Mainland China, ahead of the growth of the building and construction industry sector in Mainland China.

The Chinese government has continued to deleverage property developers in the real estate industry in China, yet the size of the real estate industry and building and construction industry in China continues to grow immensely. According to the information from the NBSC, the growth rate of both industries increased by approximately 5.6% and 10.6% in 2021, respectively, as compared to 4.2% and 2.5% in 2020, respectively. GDP in the real estate industry decreased by 5.6% to 6.8% in 2021 from 7.2% in 2020 and the building and construction industry decreased by 1.4% to 7.0% in 2021 from 7.1% in 2020.

According to the information from the NBSC, the cumulative construction area of in-progress construction projects increased by approximately 5.2% in 2021, as compared to the increase of approximately 3.7% in 2020. Moreover, the cumulative completion area, in terms of size, increased by approximately 11.2% in 2021, as compared to the decrease of approximately 4.9% in 2020.

Significant increase in the sales to industrial manufacturers

For the year ended 31 December 2021, the Group's revenue generated from sales to industrial manufacturers in Mainland China increased by approximately 16.9%, as compared to the decrease of 21.6% for the year ended 31 December 2020. These industrial manufacturers were particularly engaged in the production and sales of customer electronics, machinery and mechanical equipment, toys, electrical appliances, furniture to marine and automotive parts and components and household users. Despite the volume of sales to these industrial manufacturers has not returned to the 2019 level, the vast majority of them recorded a positive business growth in 2021 and the Group is optimistic on the future sales to these industrial manufacturers.

Breaking down into sales to industrial manufacturers in different sectors in Mainland China, firstly, the Group's revenue generated from industrial manufactures in the manufacturing-metal sector significantly increased by approximately 47.7%, as compared to the decrease of 12.3% in 2020. This is in line with the increase in sales volume in 2021. Such increase was primarily due to a significant increase in the sales of mechanical coating and anti-corrosive paints to customers in the structural steel industry.

Furthermore, the General Office of the State Council released the new-energy vehicle industry development plan for 2021-2035 in 2021 and one of its objectives was to promote the use of new energy vehicles of up to 20% of total vehicle sales in China before 2025. According to the information from the NBSC, the number of new energy vehicles manufactured in China recorded a year-to-year increase of 145.6% in 2021. Following such increasing demand for electric vehicles, the Group recorded a third-year consecutive growth in revenue generated from sales to the new energy automotive sector in China. For the year ended 31 December 2021, the Group's revenue generated from this sector increased by approximately 22.8%, as compared to the increase of 51.0% in 2020.

Increase in the sales and sales volume in the wholesale and retail trade sector in Mainland China

For the year ended 31 December 2021, the Group's revenue generated from the Distributors in Mainland China increased by approximately 9.1%, as compared to the decrease of 1.8% in 2020. According to the information from the NBSC, in terms of China's nominal GDP, the growth rate of the wholesale and retail trade sector in 2021 in China recorded a year-to-year increase of 15.0%. Retail sales of the construction and decorative paint and coating products increased by approximately 12.5%, as compared to the decrease of 15.1% in 2020. The slightly lower than market performance was primarily due to the several upward adjustments on the Group's selling prices of the paint and coating products in Mainland China.

However, the volume of paint and coating products sold to the Distributors in Mainland China increased by approximately 2.7% in 2021, as compared to the decrease of 12.0% in 2020. Therefore, it demonstrated that the Group was on a positive trend in the wholesale and retail trade sector in China.

Increase in sales turnover but decrease in sales volume in the wholesale and retail trade sector in Hong Kong

For the year ended 31 December 2021, the Group's revenue generated from the Distributors in Hong Kong increased by approximately 2.3%, as compared to the decrease of 1.7% in 2020. Such increase was primarily due to the several upward adjustments on the Group's selling prices of the paint and coating products in Hong Kong.

Nevertheless, the volume of paint and coating products sold to the Distributors in Hong Kong decreased by approximately 3.7% in 2021, as compared to the decrease of 3.9% in 2020. As a result, the Group recorded a downward trend in the sales volume of paint and coating products to the wholesale and retail trade sector in Hong Kong.

According to the 2021 Gross Domestic Product published by the C&SD, the GDFCF of the private sector and the public sector in the building and construction industry increased by 1.9% in 2021, as compared to the decrease of 8.7% in 2020. The slight increment in 2021 was primarily due to the fact that expenditure on some building and construction projects in Hong Kong had been deferred or were cancelled, which were caused by the hit of the COVID-19 pandemic.

Geographical Analysis of Revenue

Geographically, for the year ended 31 December 2021, the Group's revenue generated from Mainland China and Hong Kong accounted for approximately 92.0% and 8.0% respectively, as compared to approximately 90.5% and 9.5% respectively for the year ended 31 December 2020. The majority of the Group's revenue was generated from the Southern China, the Central China and the Eastern China. Revenue generated from these regions, in aggregate, accounted for approximately 83.8% of the Group's total revenue for the year ended 31 December 2021, as compared to approximately 83.0% for the year ended 31 December 2020.

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

For the year ended 31 December 2021, the Group's sales to construction and renovation contractors for property and infrastructure projects in the Southern China, the Eastern China and the Central China increased by 34.9% to approximately HK$95.92 million, 61.0% to approximately HK$92.81 million and 9.4% to approximately HK$135.23 million, respectively. These growths were mainly due to the Group's continued cooperation with well-known property developers in Mainland China, as well as its sustainable status as one of the registered suppliers to these property developers.

Decrease in the sales in the Central China

For the year ended 31 December 2021, the Group's revenue generated from the sales of paint and coating products in the Central China decreased by approximately 5.5%, as compared to the decrease of 0.1% in 2020. Such decrease was primarily due to the significant decrease in sales generated from the Central China region from industrial manufacturers, which resulted in a decrease of 61.4% to approximately HK$10.51 million in 2021, as compared to the decrease of 34.9% in 2020. The decrease in sales to industrial manufacturers was primarily due to the Group's business decision to terminate several low gross profit margin paint and coating product lines.

Decrease in sales in Hong Kong due to the temporary deferral on certain projects

For the year ended 31 December 2021, the Group's revenue in Hong Kong decreased by approximately 1.5%, as compared to the decrease of 9.4% in 2020. Among which, the Group's revenue generated from the sales to the contractors in the building and construction sector in Hong Kong decreased by approximately 17.2% in 2021, as compared to the decrease of 32.0% in 2020. The decrease in revenue in Hong Kong was primarily due to the temporary deferral on certain projects, which the Group has been awarded to supply the paint and coating products. These projects include building maintenance works and other infrastructure projects.

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 significant portions of the total cost of raw materials. Crude oil prices directly or indirectly impact the prices of such raw materials. In 2021, the overall crude oil prices increased significantly, possibly leading to a price surge of raw materials used for paint and coating products. Furthermore, the average international crude oil prices increased by 72% throughout 2021, as compared to the year of 2020. The international crude oil prices in 2021 had reached the price of US$84 per barrel, the highest level since October 2014, it even rose to US$130 per barrel in March 2022. According to the information from NBSC, crude oil import volume in China decreased by approximately 5.4% in 2021, as compared to the increase of 7.2% in 2020. Crude oil production volume in China increased by approximately 2.1% in 2021, as compared to the increase of 2.0% in 2020. Crude oil processing volume increased by approximately 4.3% in 2021, as compared to the increase of 3.4% in 2020. In addition to the strong recovery demand from the real estate sector (i.e. 5.6% nominal GDP) and the building and construction sector (i.e. 10.6% nominal GDP) in China, the growth rate of the industry sector in Mainland China increased significantly to approximately 19.1% in 2021, as compared to approximately 0.3% in 2020. Due to the strong recovery in various industries, there were a shortage in raw materials and delay in delivery, which resulted in surging prices in raw materials. According to the available information from other paint and coating manufacturers, purchasing prices of titanium dioxide, solvent, resin and emulsion, which are the major raw materials used in the manufacturing of paint and coating products, have increased in the range between 39% and 51%, 45% and 50%, 20% and 36% and 41% and 45%, respectively, for the first three quarters of 2021, as compared to 2020. On 31 October 2021, the Annual Rotation announced by the NFSRA stated that it aimed at easing the pressure of rising raw material prices for chemical manufacturers and other industries. After the publishing of the announcement, the prices of titanium dioxide, ethylene oxide, propylene oxide, xylene and toluene, which are the key raw materials used in the manufacturing of paint and coating products, have significantly decreased by 1.0%, 25.0%, 35.5%, 14.2% and 17.6% in December 2021, as compared to the prices in October 2021. Despite the effective implementation of the Annual Rotation, the ratio of cost of sales to revenue of the Group increased by approximately 35.2% to 80.2% in 2021 from 69.7% in 2020.

Direct labour cost

Compared with the year ended 31 December 2020, direct labour cost decreased by approximately 3.4% for the year ended 31 December 2021. Such decrease was primarily due to the enhancement of the manufacturing operation process and the reduction of direct labour in production lines.

Depreciation and production overhead

Depreciation and production overhead cost increased significantly by approximately 24.8% for the year ended 31 December 2021. Such increase was primarily due to the additional depreciation and other running expenses arising from the newly built facilities of the Group's production plant in Zhongshan (the "Zhongshan Production Plant") which was under different phases of trial production in the reporting year.

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

As mentioned above, the paint and coating industry has suffered from pressure on high raw materials costs due to high international crude oil prices, a global shortage of raw materials and the disruptions in the global supply chain throughout 2021. Despite the several upward adjustments on the Group's selling price in paint and coating products, the surging cost of raw materials has not been fully transferred to the customers. As a result, the Group's gross profit has decreased by 23.0% to approximately HK$166.27 million, while the gross profit margin decreased by approximately 34.7% to approximately 19.8% in 2021. The Group's loss attributable to its owners of the parent company increased to approximately HK$59.53 million in 2021 from approximately HK$10.80 million in 2020.

It was a general market environment for paint and coating manufacturers in Mainland China to suffer from the high pressure on high raw materials costs, which resulted in the significant decrease in gross profit margins. Since the release of the Annual Rotation in October 2021, the overall raw materials prices have gradually kept on a downward trend.

Other Income and Gains, Net

The amount of other income and gains, net for the year ended 31 December 2021 decreased by approximately 45.5% to approximately HK$12.17 million. Such decrease was primarily due to the absence of two one-off transactions incurred in 2020, which were (i) the gain on deposits paid for purchases of property, plant and equipment of approximately HK$9.35 million for the year ended 31 December 2020; and (ii) subsidies granted from the Employment Support Scheme under the Anti-epidemic Fund of the Hong Kong government of approximately HK$2.87 million for the year ended 31 December 2020.

Selling and Distribution Expenses and Administrative Expenses

For the year ended 31 December 2021, the selling and distribution expenses increased by approximately 9.6% to approximately HK$107.25 million. Such increase was primarily due to (i) an increase in transportation costs alongside an increase in the sales revenue; (ii) an increase in the advertising and promotion expenses as it was largely reduced for the year ended 31 December 2020; and (iii) an increase in travelling costs as it was largely reduced for the year ended 31 December 2020 due to the then restrictions on business and social activities. In particular, the ratio of transportation costs to revenue increased by approximately 21.2% to 3.7% in 2021 from 3.1% in 2020, which was primarily due to the significant increase in the diesel price in Mainland China during the year. According to the announcement on the adjustment on the domestic refined oil prices issued by the National Development and Reform Commission (the "NDRC"), the average monthly diesel prices recorded a year-to-year increase of 22% in 2021.

Administration expenses decreased by 1.1% to approximately HK$106.03 million for the year ended 31 December 2021. Such decrease was primarily due to the reduction in the legal and professional fees and staff costs for the year ended 31 December 2021.

On a different note, as a result of the significant increase in revenue for the year ended 31 December 2021, the ratio of selling and distribution expenses to revenue decreased to 12.8% in 2021 from 13.7% in 2020, while the ratio of administrative expense to revenue decreased to 12.7% in 2021 from 15.0% in 2020.

Other Expenses, net

The net amount of the other expenses was recorded as expenses of approximately HK$22.04 million for the year ended 31 December 2021, as compared to the net amount of the other expenses of approximately HK$39.70 million for the year ended 31 December 2020. For the year ended 31 December 2021, the net amount of the other expenses mainly comprised of local taxes and levies and stamp duties, provision for the impairment of trade receivables, staff termination payments, certain fixed assets written off and fair value loss on investment properties, amounting to approximately HK$13.90 million, HK$4.57 million, HK$2.70 million, HK$0.30 million and HK$0.24 million, respectively. The amount of other expenses, net for the year ended 31 December 2021 decreased by 44.5% to approximately HK$22.04 million in 2021 from approximately HK$39.70 million in 2020. Such decrease was primarily due to the significant decrease in the staff termination payments of approximately HK$16.22 million, the absence of provision for the impairment of items of property, plant and equipment of approximately HK$5.01 million in 2020, and the absence of reversal of the provision for the impairment of trade receivables of approximately HK$0.46 million in 2020, but there was an additional provision for impairment of trade and bills receivables of approximately HK$4.57 million in 2021, as well as the reduction of a fair value loss on investment properties of approximately HK$1.23 million in 2021.

The staff termination payments of approximately HK$2.70 million for the year ended 31 December 2021 was recorded due to (i) the continued integration of the production facilities in the Southern China; and (ii) the termination of several low gross profit margin paint and coating product lines. For further details of the termination of product lines, please refer to the paragraphs headed "Business Outlook and Business Plans" below.

In addition, the Group carried out a review of the recoverable amount of certain property, plant and equipment for the year ended 31 December 2021 based on value-in-use calculations. Accordingly, despite the net loss of the Group, the reviews concluded that there was no further recognition of the provision for the impairment of items of property, plant and equipment for the year ended 31 December 2021, as compared to the provision of approximately HK$5.01 million for the year ended 31 December 2020.

The provision for the impairment of trade and bills receivables took into account forward-looking information in addition to historical credit loss experience under HKFRS 9. The gross amount of trade and bills receivable as at 31 December 2021 increased by 13.3% and the gross amount of provision for the impairment of trade and bills receivable as at 31 December 2021 only increased by 7.7%. According to the Group's historical credit loss experience and the forward-looking information, both had been improved for the year ended 31 December 2021. Hence, although additional provision has been incurred for the year, the increasing rate of such amount was lower than the increasing rate of the increased gross amount of trade and bills receivables for the year.

Profitability Analysis

Since 2021, China has resumed normal economic activities as a result of the efficient and effective measures imposed by the Chinese government at earlier stages in preventing and controlling the spread of the COVID-19. Such early resumption was favourable to the strong economic recovery in China. Taking advantage of these opportunities and implementing the planned business revamp measures and initiatives, the Group had a desirable start with a significant revenue increase in the first quarter of 2021. However, the Group alerted the significant increases in raw materials prices during February to March 2021 and anticipated a decrease in its gross profit margin for the first quarter of 2021. Although the Group promptly responded and adjusted upward the selling prices for all paint and coating products from March 2021, the gross profit margin of the Group still dropped significantly during the first three quarters of 2021. Nevertheless, the Group recorded an improvement in the gross profit margin in the last quarter of 2021.

In addition, the Group achieved to expand its customer base and resulted in a significant growth in revenue for the year ended 31 December 2021. Furthermore, the Group continued to achieve the reduction of expenses and thus significantly decreased the ratio of several major expenses to revenue for the year ended 31 December 2021. It would not have been possible for the Group to minimise the loss attributable to its parent company at this low level of approximately HK$59.50 million for the year ended 31 December 2021 without such ongoing business measures and initiatives. Still, it was a considerable amount which was greater than the loss of approximately HK$10.80 million for the year ended 31 December 2020.

The implementation of the Group's ongoing business measures and initiatives continued to improve the cost efficiency of the Group. The objective of these business measures and initiatives was to implement strategic plans to realign the strategic directions and priorities and to improve the efficiency of the business operations of the Group. From other financial perspectives, the Group's loss of approximately HK$59.45 million for the year ended 31 December 2021 (31 December 2020: loss of approximately HK$10.74 million) would be significantly reduced to a loss of approximately HK$20.41 million for the year ended 31 December 2021 (31 December 2020: profit of approximately HK$28.19 million) after excluding finance costs, income tax, depreciation of property, plant and equipment, depreciation of right-of-use assets, reversal of provision for impairment of trade receivables, provision for impairment of items of property, plant and equipment, fair value loss on investment properties and provision for impairment of trade and bills receivables.

In terms of profitability, pressure from the significant decline in gross profit and the significantly low gross profit margin was outweighed by the significant increase in the revenue and the significant reduction in the ratios of all operating expenses to revenue. The Group's business revamp measures and initiatives help to respond to the challenging environments. The clear implementation of business strategy also helps to maintain the stable sales of the products of the Group during the COVID-19 pandemic and grasp the opportunities arising from the resumption of economic activities. The performance of the Group was principally affected by the following factors:

1. Revenue from sales – Excluding the impact on the effect of fluctuation in Renminbi exchange rates, the Group's overall revenue significantly increased by 17.6% for the sales of paint and coating products, as compared to the year ended 31 December 2020. It was primarily due to the significant revenue growth in the customers of construction and renovation contractors for property and infrastructure projects and the significant rebound in the revenue generated from the customers of Distributors and industrial manufacturers during the resumption of economic activities following the COVID-19 pandemic. During the year, the Group has terminated several paint and coating product lines which had a low gross profit margin. For further details of the termination of product lines, please refer to the paragraphs headed "Business Outlook and Business Plans" below.

2. Cost of raw materials – As mentioned in the paragraphs headed "Cost of Sales" above, a significant increase in the international crude oil prices resulted in significant increases in the prices of some major raw materials used in the manufacturing of paint and coating products. As compared to the year of 2020, the average international crude oil prices increased by 72% throughout 2021. The international crude oil prices in 2021 had reached the price of US$84 per barrel since October 2014. The strong demand for raw materials arising from the resumption of economic activities in Mainland China further aggravated the price surges and resulted in the shortage of crude oil by-products supply. To address the imbalance between supply and demand, the Chinese government imposed the Annual Rotation in October 2021.

3. Other income and gains, net – For the year ended 31 December 2021, there were absence of two one-off transactions incurred in 2020, which were (i) the gain on deposits paid for purchases of properties, plant and equipment of approximately HK$9.35 million; and (ii) subsidies granted by the Employment Support Scheme under the Anti-epidemic Fund of the Hong Kong government of approximately HK$2.87 million.

4. Staff costs – In 2020, the Group had a temporary reduction and exemption of enterprises' contributions to the premiums of Three Social Insurances for the period from February 2020 to December 2020 in Mainland China. As a result, for the year ended 31 December 2021, the overall pension contributions of the Group significantly increased by 265.3% or approximately HK$11.07 million, as compared to the significant decrease of 68.1% in 2020.

5. Selling and distribution expenses – For the year ended 31 December 2021, although the selling and distribution expenses increased by 9.6% to approximately HK$107.25 million, the ratio of the transportation costs to revenue increased by 21.2% to 3.7% in 2021 from 3.1% in 2020, which was primarily due to the significant increase in diesel price in Mainland China, as compared to the year of 2020. According to the announcement on the adjustment on the domestic refined oil prices issued by the NDRC, the average monthly diesel price has a year-to-year increase of 22% in 2021.

6. Other expenses, net – For the year ended 31 December 2021, other expenses, net significantly decreased by 44.5% or approximately HK$17.66 million, which was primarily due to the significant decrease in the staff termination costs by 85.7% or approximately HK$16.22 million to approximately HK$2.70 million in 2021 from approximately HK$18.93 million in 2020. The amount of staff termination payments in 2020 was in relation to the integration of the production facilities in the Southern China.

7. Finance costs – For the year ended 31 December 2021, finance costs decreased by 28.7%, which was primarily due to the significant decrease in the average borrowing interest rate of overall one-month HIBOR and three-month HIBOR, as compared to the year of 2020.

8. Renminbi exchange rate against Hong Kong dollars – The rise in Renminbi during the year ended 31 December 2021 had an adverse financial impact on the Group's operating results.

BUSINESS OUTLOOK AND BUSINESS PLANS

BUSINESS OUTLOOK

Update on the impact of the COVID-19 pandemic on the Group

In 2021, the Chinese government managed and stopped the spread of the COVID-19 by promoting vaccinations and implementing various preventive measures across the country. The emergence of a highly transmissible new COVID-19 variant, Omicron, was first detected in late November 2021. The first case of Omicron in Mainland China was reported in Tianjin in December 2021. With this highly transmissible variant spreading across the community, in December 2021, the Chinese government tightened the level of social distancing measures to the most stringent level. In a situation of flux and uncertainty at present, it is difficult for the Group to predict how long these conditions will persist and how its operations will be affected. Nevertheless, the Group has taken various measures and precautions to ensure a safe and healthy working environment, thus preventing the spread of the COVID-19. The Group's employees have been asked to conduct meetings online and to reduce business travel. Additionally, the Group will do everything possible to prevent the COVID-19 variants (Delta and Omicron), as well as to train its employees so that they can operate in a safe manner to sustain the Group's business development.

BUSINESS PLANS

Taking into account the current challenges of the deleveraging campaign of the real estate industry in Mainland China as well as the increasing international crude oil price and the shortage of crude oil by-products supply, the Directors take a cautious approach to the business environment of the paint and coating industry in Mainland China.

Besides the ongoing political tensions between China and the United States, the Russia-Ukraine conflict and western sanctions on Russia are affecting the global economy. The international crude oil price has surged to approximately US$130 per barrel in March 2022, as compared to the price of US$75 per barrel as at 31 December 2021. On the other hand, OPEC (Organization of the Petroleum Exporting Countries) and its allies declined to increase additional oil production outputs to cool down the market sentiment, despite Canada and the United States would increase its oil production outputs through an increase in their number of drilling rigs. According to the publicly available information, the number of international active drilling rigs increased by 6.8% to 1,669 rigs in February 2022, as compared to 1,563 rigs in December 2021. Among which, rigs for Canada and the United States increased by 46% and 9%, respectively. The market has expected that prices of some crude oil by-products will stay at a high level in 2022. Therefore, the Group would regularly review the composition costs of its paint and coating products in relation to the raw materials and would effectively increase 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 when necessary. For further information on the pricing strategies, please refer to the paragraphs headed "Pricing strategies" below.

As a result of the pricing strategies of the Group and China's implementation of the Annual Rotation, the Group is optimistic about its operational performance in 2022 and is expecting an increase in the gross profit margin and a decrease in the ratio of the operating expenses to revenue.

While the amount of loss for the year ended 31 December 2021 was largely increased when compared with the loss for the year ended 31 December 2020, the Group recognises that further revenue improvements can be made by expanding its customers base and geographical sales in Mainland China. In addition, the Group will examine production cooperation with selected paint and coating manufacturers on an OEM (Original Equipment Manufacturers) basis. The Directors are of the view that the fundamentals of the business initiatives remain effective and necessary as the increase in loss for the year was mainly due to the significant increase in raw materials prices in 2021.

The Group's gross profit margin and gross profit started to improve since the third quarter of 2021, because 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 increase 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. **Termination of product lines with low gross profit margin**

   Several product lines, which served customers of industrial manufacturers in the Central China, were evaluated for their gross profit margins. If the gross profit margins were deteriorating the overall gross profit margin of the Group, the product lines would be terminated. During the year, the existing occupied production capacity was released to focus on products with high profit margins in the Southern China. These assessments have been continuing and have extended to all industrial manufacturers in the Eastern China and the Northern China. The assessments were made in conjunction with the enhancement of the Group's profitability, the strategic location in the Southern China and the improvement of the ratio of operating expenses to revenue.

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

Due to the spread of new variants of the COVID-19, the Group has yet to identify suitable office premises in Shenzhen for setting up a new product research and development centre (the "New R&D Centre"). The commencement of business operation of the New R&D Centre has been postponed since 2020. Although the COVID-19 pandemic has delayed the progress of setting up the New R&D Centre, such establishment 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 the Southern China and more importantly, to employ high caliber candidates for the support of further development of paint and coating products in the Southern China. Despite the hurdles in setting up the New R&D Centre, the Group has been conducting research and development on new paint and coating products. During the year, the Group continually invented new paint and coating products as well as new and modified paint and coating formulations. The Group purchased machineries and equipment for the use of product development. As the New R&D Centre is not ready, these machineries and equipment have been temporarily placed in other production facilities of the Group in Mainland China, and will be moved to the New R&D Centre upon its establishment. During the year, these machineries and equipment had been utilised in production. It is expected that the Group will locate suitable office premises and establish the New R&D Centre by 30 June 2022. Nevertheless, the situation would be affected by the economic setting in Mainland China as mentioned in the paragraphs headed "Use of Net Proceeds from the Share Offer" below.

FINANCIAL REVIEW

The management has been provided with key performance indicators ("KPIs") to manage its business through evaluating, controlling and setting strategies to achieve performance improvements. Such KPIs include revenue, gross profit margin, net profit attributable to shareholders, inventory turnover days, and trade and bills receivables turnover days.

The Group recorded a loss attributable to the owners of the parent company of approximately HK$59.53 million for the year ended 31 December 2021, the amount of which was increased by 451.2% as compared to a loss of approximately HK$10.80 million for the year ended 31 December 2020. Revenue for the year amounted to approximately HK$838.07 million, representing a significant increase of 17.6% when compared to that of last year. Gross profit for the year amounted to approximately HK$166.27 million, representing a significant decrease of 23.0% when compared to that of last year. The gross profit margin decreased by 34.7% from 30.3% in 2020 to 19.8% in 2021.

LIQUIDITY AND FINANCIAL INFORMATION

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 approximately HK$196.09 million as at 31 December 2021, as compared to approximately HK$236.41 million as at 31 December 2020. Such decrease was mainly due to the change of working capital. The total cash and bank balances including structured deposits and pledged deposits, amounted to approximately HK$238.40 million as at 31 December 2021, as compared to approximately HK$242.37 million as at 31 December 2020. Bank borrowings amounted to approximately HK$216.08 million as at 31 December 2021, as compared to approximately HK$215.30 million as at 31 December 2020. The Group's bank borrowings mainly bear interest at floating rates. As at 31 December 2021, the Group's total bank borrowings amounted to approximately HK$216.08 million (100.0%) (31 December 2020: approximately HK$215.30 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 it 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 40.8% as at 31 December 2021, as compared to 37.1% as at 31 December 2020. Liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.26 times as at 31 December 2021, as compared to 1.41 times as at 31 December 2020.

For the year ended 31 December 2021, the inventory turnover days[1] were 44 days, which was different from that of 52 days for the year ended 31 December 2020. The trade and bills receivables turnover days[2] decreased to 192 days for the year ended 31 December 2021 from 198 days for the year ended 31 December 2020. Such decrease was primarily due to the improvement in sales revenue and the reduction of deferral settlement by customers.

1 The calculation of inventory turnover days is based on the closing balance of inventories divided by the cost of sales times 365 days (31 December 2020: 366 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 365 days (31 December 2020: 366 days).

Equity and Net Asset Value

Shareholders' funds of the Company as at 31 December 2021 amounted to approximately HK$529.58 million, as compared to approximately HK$580.40 million as at 31 December 2020. Net asset value per share as at 31 December 2021 amounted to approximately HK$0.53, as compared to approximately HK$0.58 as at 31 December 2020. 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 31 December 2021, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was approximately HK$216.08 million (31 December 2020: approximately HK$215.30 million).

In addition, the Group entered 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. Generally, in case there is a breach of contract regarding the quality of the Group's products supplied to the customers and the customers thus claim from the bank, the bank may further deduct the amount of the said claim from the Group's pledged deposits of approximately HK$1.35 million as at 31 December 2021 (31 December 2020: Nil).

Pledge of Assets

As at 31 December 2021, certain property, plant and equipment, right-of-use assets and cash deposits with an aggregate net book value of approximately HK$49.04 million, as compared to approximately HK$7.32 million as at 31 December 2020, were pledged to financial institutions as collaterals for bills payables, bank borrowings, performance bonds and lease liabilities. In addition, as at 31 December 2021 and 2020, a wholly-owned subsidiary of the Group pledged its shares to secure general banking facilities granted to the Group.

TREASURY MANAGEMENT

Funding and Treasury Policy

The Group adopts a prudent approach in its funding and treasury policy, which aims to maintain an optimal financial position for the Group and minimise its financial risks. The Group regularly reviews the funding requirements to ensure there are adequate financial resources to support its business operations and future investments as and when needed.

Foreign Currency Exposure

The Group's cash, bank balances and bank borrowings were mainly denominated in Hong Kong dollars and Renminbi. The Group's results can be affected by movements in the exchange rate between Hong Kong dollars and Renminbi. The Group did not have any hedging instrument to hedge the foreign currency exposure as at 31 December 2021. The Group will continue to monitor its foreign currency exposure and requirements closely and arrange hedging facilities when necessary.

Capital Expenditure

During the year ended 31 December 2021, the Group invested a total sum of approximately HK$18.23 million (2020: approximately HK$26.10 million) in the plant and equipment, and the construction of new production facilities.

HUMAN RESOURCES

Headcount as at 31 December 2021 was 732 (31 December 2020: 783). Staff costs (excluding directors' emoluments) amounted to approximately HK$132.00 million for the year as compared to approximately HK$130.56 million in the previous year.

The Group offers comprehensive and competitive staff remuneration and benefits that are based on individual performance. Training is provided to employees of the Group depending on their departments and the scope of their responsibilities. The human resources department would also arrange for employees to attend training, especially in regards to workplace health and safety.

PRINCIPAL RISKS AND UNCERTAINTIES

Financial Risks

Interest Rate Risk

The Group is exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are mainly deposits with banks which are mostly short-term in nature whereas interest-bearing financing liabilities are mainly bank borrowings with primarily floating interest rates. The Group is therefore exposed to interest rate risk. The Group's policy is to obtain the most favourable interest rates available.

Currency Rate Risk

The Group has transactional currency exposures. Those exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group's main operating subsidiaries are located in Hong Kong and Mainland China and the Group's sales and purchases were mainly conducted in Hong Kong dollars and Renminbi. The Group also has significant investments in Mainland China and its statement of financial position can be affected by movements in the exchange rate between Hong Kong dollars and Renminbi.

Credit Risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group maintains an allowance for the estimated loss arising from the inability of its debtors to make the required payments. The Group adopts a forward-looking expected credit loss approach to estimate the provision based on the ageing of its receivable balances. If the financial condition of its debtors deteriorates which resulted in the actual impairment loss being higher than expected, the Group would be required to revise the basis of making the allowance.

Market Risks

Loss of market share to competitors is the market risk to the Group. The Group's core markets in Hong Kong and Mainland China are subject to increasing competition. Loss of business to competitors resulting from failure to consider changes in the environment in Hong Kong and Mainland China could have an adverse effect on the Group's financial position. The Group has specialised sales and marketing teams and is committed to protect existing business with competitive pricing policies and high-quality green and safe paint and coating products.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and system or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. Key functions in the Group are guided by their standard operating procedures, safety standards, limits of authority and reporting framework. The management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

ENVIRONMENTAL POLICIES AND PERFORMANCE

During the year, the Group has carried out the following environmental works for the paint and coating business of the Group with the aims of "Prevention First, Protect the Environment, Comply with Laws and Regulations, and Environmental Sustainability":

1. effective monitoring on air emission and source of water pollution in accordance with the relevant statutory and regulatory requirements;

2. disposal of hazardous solid waste via qualified waste disposal service providers;

3. effective use of water and electricity; and

4. education to the staff on environmental protection laws and regulations to enhance their awareness on environmental protection.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year, as far as the Group is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

EVENTS AFTER THE REPORTING DATE

Save as disclosed above, there is no significant subsequent event after 31 December 2021.

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 approximately 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 following table sets forth the status of the use of net proceeds from the Global Offering:

Use of Proceeds	Use of net proceeds from the Global Offering prior to the Reallocation HK$ million	The Reallocation HK$ million	Use of net proceeds subsequent to the Reallocation HK$ million	Amount unutilised as at 31 December 2020 HK$ million	Amount utilised during the year ended 31 December 2021 HK$ million	Amount unutilised as at 31 December 2021 HK$ million	Actual and expected timeline for utilising the remaining net proceeds from the Listing
(1) Construction of the production plant in Xinfeng	78.5	(52.2)	26.3	–	–	–	Fully utilised as of 31 December 2019
(2) Repayment of the bank loans	19.1	–	19.1	–	–	–	Fully utilised as of 31 December 2017
(3) Acquisitions of business or production assets	42.0	–	42.0	–	–	–	Fully utilised as of 31 December 2018
(4) Sales and market campaigns and activities	28.6	–	28.6	–	–	–	Fully utilised as of 31 December 2018

Use of Proceeds	Use of net proceeds from the Global Offering prior to the Reallocation	The Reallocation	Use of net proceeds subsequent to the Reallocation	Amount unutilised as at 31 December 2020	Amount utilised during the year ended 31 December 2021	Amount unutilised as at 31 December 2021	Actual and expected timeline for utilising the remaining net proceeds from the Listing
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	
(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	19.2	(2.1)	17.1	Expected to be fully utilised by 30 June 2022
	168.2	–	168.2	19.2	(2.1)	17.1	

As at 31 December 2021, the amount of the unutilised amount of the net proceeds from the Global Offering amounted to HK$17.1 million, which would be used for the establishment of the New R&D Centre. The Directors confirm that such usage has not been changed, but the expected date of commencement of the New R&D Centre would depend on the continuous development of the economy of Mainland China, which would be in turn affected by (i) whether the ongoing COVID-19 pandemic is under control with vaccination; (ii) the resumption of normal cross-border and business activities between Hong Kong and Mainland China; and (iii) the relaxation of the quarantine rules currently in force in certain parts of Mainland China. These factors affect the economic situation in Mainland China and the commercial viability of the proposed establishment of the New R&D Centre in Mainland China.

Save for the above, the Directors are not aware of any material change to the proposed usage of the net proceeds set forth above. If there is any further change in the proposed usage of the net proceeds, the Company will make a further announcement in full compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as and when appropriate.

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 year ended 31 December 2021. The Board has not yet authorised any plan for other material investments or additions of capital assets.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

AUDIT COMMITTEE REVIEW

The audit committee of the Board has met the external auditors of the Company, Messrs. Ernst and Young ("EY"), and reviewed the Group's annual results for the year ended 31 December 2021.

REVIEW OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITORS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by EY, to the amounts as set out in the Group's draft consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by EY on the preliminary announcement.

CORPORATE GOVERNANCE

The Board recognises the importance of and benefit from good corporate governance practices and has devoted considerable efforts to develop the best corporate governance practices appropriate to the businesses of the Group. For the year ended 31 December 2021, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules (the "Model Code"). After specific enquiry by the Company, all Directors confirmed that they have complied with the required standard as set out in the Model Code and the Company's own code during the year ended 31 December 2021.

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

Hong Kong, 30 March 2022

As at the date of this announcement, the Board comprises Mr. Tsui Ho Chuen, Philip, Mr. Li Guangzhong and Mr. Wong Anders as executive Directors; Mr. Lam Ting Ball, Paul and Mr. Chong Chi Kwan as non-executive Directors; and Ms. Chiu Kam Hing, Kathy, Mr. Chua Joo Bin and Mr. Xia Jun as independent non-executive Directors.