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 2023

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
Results	**2023 HK$'000**	2022 HK$'000	Change %
Revenue	**469,091**	643,049	-27.1
Gross profit	**157,543**	142,528	10.5
Gross profit margin	**33.6%**	22.2%	51.4
Loss attributable to shareholders of the Company	**(67,115)**	(98,084)	-31.6
Loss per share (HK cents) Basic and diluted	**(6.71)**	(9.81)	-31.6

Financial Position	**As at 31 December 2023 HK$'000**	As at 31 December 2022 HK$'000	Change %
Cash and cash equivalents and pledged deposits	**243,937**	189,723	28.6
Bank and other borrowings	**216,715**	237,257	-8.7
Gearing ratio	**48.8%**	45.8%	6.6
Net asset value per share (HK$)	**0.45**	0.52	-13.5

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 2023 together with comparative amounts for the corresponding year in 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2023

	Notes	**2023** **HK$'000**	2022 HK$'000
REVENUE	4	**469,091**	643,049
Cost of sales		**(311,548)**	(500,521)
Gross profit		**157,543**	142,528
Other income and gains, net	4	**9,622**	40,641
Selling and distribution expenses		**(62,286)**	(90,455)
Administrative expenses		**(91,136)**	(123,955)
Other expenses, net		**(69,960)**	(59,782)
Finance costs	5	**(13,242)**	(7,433)
LOSS BEFORE TAX	6	**(69,459)**	(98,456)
Income tax credit/(expense)	7	**2,482**	(15)
LOSS FOR THE YEAR		**(66,977)**	(98,471)
ATTRIBUTABLE TO:			
Owners of the parent		**(67,115)**	(98,084)
Non-controlling interest		**138**	(387)
		(66,977)	(98,471)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	**HK (6.71) cents**	HK (9.81) cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023

	2023	2022
	HK$'000	HK$'000
LOSS FOR THE YEAR	**(66,977)**	(98,471)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(23,182)**	(49,364)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement of net pension scheme assets	**–**	(1,438)
Gain on property revaluation	**21,273**	154,698
Income tax effect	**(5,101)**	(23,204)
	16,172	131,494
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**16,172**	130,056
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(7,010)**	80,692
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(73,987)**	(17,779)
ATTRIBUTABLE TO:		
Owners of the parent	**(75,283)**	(17,120)
Non-controlling interest	**1,296**	(659)
	(73,987)	(17,779)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	**2023** **HK$'000**	2022 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**110,000**	151,090
Investment properties	11	**309,087**	240,941
Right-of-use assets		**34,593**	81,270
Equity investment designated at fair value through other comprehensive income		**300**	300
Deposits for purchases of property, plant and equipment		**4,185**	4,308
Deposits and prepayments		**764**	500
Deferred tax assets		**17,502**	14,220
Total non-current assets		**476,431**	492,629
CURRENT ASSETS			
Inventories		**27,353**	43,124
Trade and bills receivables	12	**171,852**	369,378
Prepayments, deposits and other receivables		**53,286**	57,978
Pledged deposits		**98,994**	42,202
Cash and cash equivalents		**144,943**	147,521
Total current assets		**496,428**	660,203
CURRENT LIABILITIES			
Trade and bills payables	13	**195,523**	260,778
Other payables and accruals		**53,502**	76,980
Interest-bearing bank borrowings		**120,745**	237,257
Lease liabilities		**2,646**	3,552
Tax payable		**9,054**	9,387
Total current liabilities		**381,470**	587,954
NET CURRENT ASSETS		**114,958**	72,249
TOTAL ASSETS LESS CURRENT LIABILITIES		**591,389**	564,878

	2023	2022
	HK$'000	HK$'000
NON-CURRENT LIABILITIES		
Loans from the Parent Group	**95,970**	–
Lease liabilities	**3,630**	5,196
Deferred tax liabilities	**39,661**	35,621
Deferred income	**334**	634
Deposit received	**3,154**	2,482
Total non-current liabilities	**142,749**	43,933
Net assets	**448,640**	520,945
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**100,000**	100,000
Reserves	**344,465**	418,066
	444,465	518,066
Non-controlling interest	**4,175**	2,879
Total equity	**448,640**	520,945

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 were involved in the following principal activities:

- manufacture and sale of paint and coating products; and

- property investment (including the investments in properties for rental income)

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.

CNT Group Limited and its subsidiaries, but excluding the Group, are collectively referred to as the "Parent Group".

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 ("HKICPA"), 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 and an equity investment, 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 new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 17	*Insurance Contracts*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform – Pillar Two Model Rules*

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

(a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy discloses. The amendments did not have any impact on the measurement, recognition or presentation of any items in the financial position and performance of the Group.

(b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments did not have any impact on the financial position and performance of the Group.

(c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions.

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets and lease liabilities separately. However, they did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under HKAS 12.

(d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two Income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

(a) the paint products segment engages in the manufacture and sale of paint and coating products; and

(b) the property investment segment invests in industrial properties for their rental income potential.

The chief operating decision-maker regularly reviews the operating results of the Group's operating segments separately for the purpose of resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that interest income, finance costs, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted on mutually agreed terms.

Year ended 31 December 2023	**Paint products HK$'000**	**Property investment HK$'000**	**Total HK$'000**
Segment revenue			
Sales to external customers	**448,475**	**20,616**	**469,091**
Other revenue and gains, net	**7,689**	**–**	**7,689**
	456,164	**20,616**	**476,780**
Reconciliation:			
Elimination of intersegment sales			**–**
Total			**476,780**
Segment results	**(58,152)**	**6,355**	**(51,797)**
Reconciliation:			
Elimination of intersegment results			**–**
Interest income			**1,933**
Finance costs			**(13,242)**
Corporate and other unallocated expenses			**(6,353)**
Loss before tax			**(69,459)**

Year ended 31 December 2023	Paint products HK$'000	Property investment HK$'000	Total HK$'000
Segment assets	**639,424**	**320,731**	**960,155**
Reconciliation:			
Elimination of intersegment receivables			**–**
Corporate and other unallocated assets			**12,704**
Total assets			**972,859**
Segment liabilities	**482,024**	**40,322**	**522,346**
Reconciliation:			
Elimination of intersegment payables			**–**
Corporate and other unallocated liabilities			**1,873**
Total liabilities			**524,219**
Other segment information			
Depreciation on property, plant and equipment	**17,881**	**–**	**17,881**
Depreciation on right-of-use assets	**5,341**	**–**	**5,341**
Capital expenditure*	**3,989**	**–**	**3,989***
Fair value loss on investment properties, net	**–**	**11,482**	**11,482**
Loss on revaluation of right-of-use assets	**1,778**	**–**	**1,778**
Loss on revaluation of property, plant and equipment	**26**	**–**	**26**
Provision for impairment of trade and bills receivables, net	**50,128**	**–**	**50,128**
Reversal of provision for impairment of property, plant and equipment	**(927)**	**–**	**(927)**
Reversal of provision for impairment of right-of-use assets	**(3,710)**	**–**	**(3,710)**
Reversal of provision of inventories to net realisable value, net	**(36)**	**–**	**(36)**

* Capital expenditure consists of additions to property, plant and equipment.

Year ended 31 December 2022	Paint products HK$'000	Property investment HK$'000	Total HK$'000
Segment revenue			
Sales to external customers	639,134	3,915	643,049
Other revenue and gains, net	36,403	2,467	38,870
	675,537	6,382	681,919
Reconciliation:			
Elimination of intersegment sales			–
Total			681,919
Segment results	(86,366)	4,269	(82,097)
Reconciliation:			
Elimination of intersegment results			–
Interest income			1,771
Finance costs			(7,433)
Corporate and other unallocated expenses			(10,697)
Loss before tax			(98,456)
Segment assets	894,058	246,151	1,140,209
Reconciliation:			
Elimination of intersegment receivables			–
Corporate and other unallocated assets			12,623
Total assets			1,152,832
Segment liabilities	594,580	35,354	629,934
Reconciliation:			
Elimination of intersegment payables			–
Corporate and other unallocated liabilities			1,953
Total liabilities			631,887

Year ended 31 December 2022	Paint products HK$'000	Property investment HK$'000	Total HK$'000
Other segment information			
Depreciation on property, plant and equipment	25,706	–	25,706
Depreciation on right-of-use assets	7,170	–	7,170
Capital expenditure*	21,736	–	21,736*
Fair value gain on investment properties, net	–	(593)	(593)
Provision for impairment of trade and bills receivables, net	16,308	–	16,308
Trade receivables written off as uncollectible	522	–	522
Provision for impairment of property, plant and equipment	1,855	–	1,855
Provision for impairment of right-of-use assets	6,145	–	6,145
Reversal of provision of inventories to net realisable value, net	(135)	–	(135)

* Capital expenditure consists of additions to property, plant and equipment, right-of-use assets (land portion only) and deposits for purchases of property, plant and equipment.

Geographical information

(a) Revenue from external customers

	2023 **HK$'000**	2022 HK$'000
Hong Kong	**59,073**	68,493
Mainland China	**410,018**	574,556
	469,091	643,049

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

(b) Non-current assets

	2023 **HK$'000**	2022 HK$'000
Hong Kong	**1,587**	989
Mainland China	**457,042**	476,620
	458,629	477,609

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets and financial instruments.

Information about a major customer

During the years ended 31 December 2023 and 2022, 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:

	2023	2022
	HK$'000	HK$'000
Revenue from contracts with customers		
Sale of paint products	**448,475**	639,134
Revenue from other sources		
Gross rental income from investment properties	**20,616**	3,915
	469,091	643,049

Disaggregated revenue information

	2023	2022
	HK$'000	HK$'000
Type of paint and coating products sold		
Industrial paint and coating products	**172,863**	227,764
Architectural paint and coating products	**178,225**	273,717
General paint and coating and ancillary products	**97,387**	137,653
	448,475	639,134
Timing of revenue recognition		
Goods transferred at a point in time	**448,475**	639,134

An analysis of the Group's other income and gains, net is as follows:

	2023	2022
	HK$'000	HK$'000
Other income and gains, net		
Bank interest income	**1,933**	1,771
Fair value gain on investment properties, net	**–**	593
Foreign exchange differences, net	**215**	542
Government grants*	**836**	1,939
Government subsidies#	**4,077**	32,384
Gain on disposal of items of property, plant and equipment, net	**553**	537
Recognition of deferred income	**284**	299
Others	**1,724**	2,576
	9,622	40,641

* 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.

During the year ended 31 December 2023, the amount was primarily attributed from that the PRC government granted subsidies of HK$2,399,000 for the removal of solvent production lines and solvent storage tanks in the production plant in Hubei (the "Hubei Production Plant") located in Mainland China. In addition, the tax authority granted to the Group an Advanced Manufacturing Tax Credit Initiative amounting to HK$1,662,000 under the Announcement No. 43 [2023] of the Ministry of Finance and the State Taxation Administration. There are no unfulfilled conditions or contingencies relating to these government subsidies.

During the year ended 31 December 2022, the PRC government granted subsidies for the removal of solvent production lines and solvent storage tanks in both the production plants in Shajing (the "Shajing Production Plant") and the Hubei Production Plant located in Mainland China. The subsidies amounted to HK$27,057,000 and HK$2,373,000, respectively. Furthermore, a subsidy of HK$1,874,000 was granted for relocating the main factory entrances within the complex situated in Shanghai, Mainland China (the "Shanghai Complex"). In addition, subsidies of HK$1,080,000 were granted from the 2022 Employment Support Scheme under the Anti-epidemic Fund of the Hong Kong government. There were no unfulfilled conditions or contingencies relating to these government subsidies.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2023	2022
	HK$'000	HK$'000
Interest on bank loans and other borrowings	**12,838**	7,109
Interest expense on lease liabilities	**404**	324
	13,242	7,433

6. LOSS BEFORE TAX

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

	2023	2022
	HK$'000	HK$'000
Cost of inventories sold	**311,548**	500,521
Depreciation of property, plant and equipment	**17,881**	25,706
Depreciation of right-of-use assets	**5,341**	7,170
Equity-settled share option expenses	**1,682**	5,610
Fair value loss/(gain) on investment properties, net*	**11,482**	(593)
Foreign exchange differences, net*	**(215)**	(542)
Gain on disposal of items of property, plant and equipment, net*	**(553)**	(537)
Loss on revaluation of property, plant and equipment*	**26**	–
Loss on revaluation of right-of-use assets*	**1,778**	–
Provision for impairment of trade and bills receivables, net*	**50,128**	16,308
Provision for/(reversal of provision for) impairment of property, plant and equipment*	**(927)**	1,855
Provision for/(reversal of provision for) impairment of right-of-use assets*	**(3,710)**	6,145
Reversal of provision of inventories to net realisable value, net@	**(36)**	(135)
Staff termination cost*	**1,226**	21,581
Trade receivables written-off as uncollectible*	**–**	522
Write-off of items of property, plant and equipment*	**54**	1,354

* 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 (2022: 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 were subject to the PRC corporate income tax at a standard rate of 25% (2022: 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% (2022: 15%) had been applied during the year.

	2023	2022
	HK$'000	HK$'000
Current – Elsewhere		
Charge for the year	**–**	194
Under/(over) provision in prior year	**1,304**	(284)
Deferred	**(3,786)**	105
Total tax expense/(credit) for the year	**(2,482)**	15

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$67,115,000 (2022: HK$98,084,000) and the weighted average number of ordinary shares of 1,000,000,000 (2022: 1,000,000,000) in issue during the year.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding and assumed conversion of all dilutive potential ordinary shares as adjusted to reflect the dilution effect of the share options issued by the Company. For the year ended 31 December 2023 and 2022, no adjustment has been made to the basic loss per share amounts presented in respect of a dilution as the impact of the outstanding share options had an anti-dilutive effect on the basic loss per share amounts presented.

9. DIVIDEND

The Directors have resolved not to declare a final dividend for the year ended 31 December 2023 (2022: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2023, the Group acquired items of property, plant and equipment at costs of HK$3,989,000 (31 December 2022: HK$10,153,000) and transferred industrial properties and a commercial property to investment properties at fair value on HK$45,047,000 (31 December 2022: on 21 October 2022, the Group transferred an industrial property to an investment property at a fair value of HK$160,710,000).

11. INVESTMENT PROPERTIES

	2023	2022
	HK$'000	HK$'000
Carrying amount at 1 January	**240,941**	81,703
Fair value gain/(loss), net	**(11,482)**	593
Transfer from owner-occupied properties	**45,047**	160,710
Transfer from right-of-use assets	**43,540**	–
Exchange realignment	**(8,959)**	(2,065)
Carrying amount at 31 December	**309,087**	240,941

The investment properties of the Group were revalued on 31 December 2023 based on the valuations performed by BMI Appraisals Limited and 中山市安平房地產評估有限公司, both are the independent professional qualified valuers, at HK$309,087,000 (31 December 2022: HK$240,941,000). Fair values of the Group's investment properties are generally derived by using the income capitalisation method, the market comparison approach and the depreciated replacement cost approach.

12. TRADE AND BILLS RECEIVABLES

The trade receivables of the Group represent receivables arising from the leasing of investment properties and the sale of paint products. The Group normally requires its customers to make payment of monthly rentals in advance in relation to the leasing of investment properties. Tenants are usually required to pay security deposits which are held by the Group. 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:

	2023	2022
	HK$'000	HK$'000
Within three months	**63,946**	147,698
Over three months and within six months	**21,061**	72,445
Over six months	**86,845**	149,235
	171,852	369,378

13. 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:

	2023	2022
	HK$'000	HK$'000
Within three months	**71,790**	122,567
Over three months and within six months	**62,130**	76,699
Over six months	**61,603**	61,512
	195,523	260,778

The trade and bills payables are unsecured, non-interest-bearing and are normally settled within two months. As at 31 December 2023, the bills payables with an aggregate carrying amount of HK$115,694,000 (31 December 2022: HK$134,656,000) were secured by time deposits of HK$98,117,000 (31 December 2022: HK$40,397,000).

14. 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 participants (including, but not limited to, executive Directors, non-executive Directors and independent non-executive Directors, any supplier of goods or services to any member of the Group and any customer of the Group), who made contributions to the Group. Unless terminated by resolution in general meeting or by the Board, the Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date, 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 vested 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 lapsed.

The following share options were outstanding under the Scheme during the years:

	2023		2022	
	Weighted average exercise price HK$ per share	**Number of options**	Weighted average exercise price HK$ per share	Number of options
At 1 January	**0.335**	**80,000,000**		–
Granted during the year		**–**	0.335	80,000,000
At 31 December	**0.335**	**80,000,000**	0.335	80,000,000
Vested and exercisable at 31 December	**0.335**	**56,000,000**	0.335	40,000,000

None of the share options granted under the Scheme were exercised, cancelled or lapsed during the year ended 31 December 2023 and 2022.

The fair value of equity-settled share options granted during the year ended 31 December 2022 was estimated as at the date of grant, using the Binomial Option Pricing Model (the "Model"), taking into account the terms and conditions upon which the options were granted. The Model is one of the commonly used models to estimate the fair value of an option. The value of an 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
Exercised price (HK$ per share)	0.335

No share options were granted under the Scheme during the year ended 31 December 2023 (The fair value of the share options granted during the year ended 31 December 2022 was HK$8,417,000). The share option expenses of approximately HK$1,682,000 was recognised during the year ended 31 December 2023 (31 December 2022: HK$5,610,000).

DIVIDEND

The Directors have resolved not to declare a final dividend for the year ended 31 December 2023 (2022: Nil).

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 "AGM"), the register of members of the Company will be closed from Thursday, 30 May 2024 to Tuesday, 4 June 2024, 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 AGM, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Wednesday, 29 May 2024.

CHAIRMAN'S STATEMENT

OVERVIEW

The global economy in 2023 encountered different levels of uncertainties due to the regional conflicts in Europe and the Middle East and the geopolitical issues between leading countries or economic powerhouses. The interest rates remained at high levels throughout the year, which created financial constraints and discouraged large-scale capital investments. As a result, the average global gross domestic product (the "GDP") only recorded a modest growth of approximately 3% in 2023, whilst the GDP of Mainland China in 2023 surpassed the global average, according to the International Monetary Fund ("IMF") report. In the past decades, China significantly relied on exports of goods to maintain economic growth and the growth in the GDP. However, this conventional growth driver has become increasingly challenging due to the surge in different types of trade barriers amongst the target export markets of Mainland China. Hence, the Chinese government implemented a series of measures in 2023 for the purpose of bolstering the domestic demand within the country. The economic rebound in Mainland China in 2023 exhibited different extents in different sectors. The percentage of contributions to the GDP growth from the increase in consumption expenditures, net exports of goods and services and gross domestic capital investment was 1.182%, 0.415%, and 1.403% in 2022 to 4.291%, -0.594%, and 1.504% in 2023, as reported by the National Bureau of Statistics of China ("NBSC").

Moreover, the Chinese industrial purchasing price index, which reduced to a range of 3.4% to 13.8%, indicated continuous decreases in the raw material prices in Mainland China in 2023. These decreases were due to the sluggish demand and exports and the decrease in crude oil prices. In response to the challenges posed by supply chain disruptions and significant fluctuations in the raw material prices and supply over recent years, the Group converted the underutilised production plants and office premises in Mainland China into investment properties. This arrangement was aimed to optimise the assets allocation of the Group, thereby improving the operating cash flows. Furthermore, the establishment of a new business segment focused on holding of investment properties in 2022 has underscored the Group's commitment to providing the shareholders of the Company with greater transparency. As at 31 December 2023, the value of the Group's investment properties significantly rose to HK$309.09 million, up from HK$240.94 million as at 31 December 2022, which represented 31.8% of the Group's total assets. While this is a positive development, the Group continues to maintain a cautious approach in managing its investment property portfolio in 2023 in alignment with its business strategies.

According to the information released by the NBSC, the paint and coating industry is classified under the manufacturing sector of the secondary industry. In 2023, the nominal GDP of the secondary industry and the industry sector recorded increases of 4.7% and 4.2%, respectively, as compared to 2022. Additionally, a preliminary estimate highlighted a 3.5% growth in the production of paint and coating product (measured in tonnes) and a 3.0% increase in the sales of paint and coating products (measured in Renminbi) within the industry in Mainland China. The increase in production outstripped the increase in sales, intensifying market competition. The situation was further exacerbated by a sluggish real estate market and a substantial decrease in the accumulated construction area of new projects in Mainland China in 2023. In response to these changes in the domestic market in Mainland China, and aiming to balance the cost and benefit outcome, the Group continued to emphasise on the stable, reliable quality and timely delivery of its products to customers while implementing cost-saving measures through the integration of the underutilised production plants in Mainland China. Consequently, despite the revenue generated from sales of paints and coating products experienced a significant decrease of 29.8% during the year ended 31 December 2023, the amount of gross profit only recorded an insignificant decrease of 1.2%, and the gross profit margin was increased by 8.8 percentage points, as compared to 2022. The decrease in the sales of the Group in 2023 was primarily driven by a notable 34.9% decrease in the sales of architectural paint and coating products and 24.1% decrease in the sales of industrial paint and coating products.

Moreover, in 2023, the real estate industry recorded a mild decrease in the growth rate of 0.1% while the building and construction industry sector recorded a growth rate of 2.8%. Notably, the accumulated construction area of construction-in-progress in Mainland China's real estate industry was also decreased by 7.4% in 2023, as compared to the decrease of 7.2% in 2022. The accumulated construction area of new projects was decreased by 20.9% in 2023, as compared to the decrease of 39.4% in 2022. Amid mounting financial pressures and adverse reports concerning property developers in Mainland China, the Group carefully evaluated and rigorously controlled the flexibility of credit terms provided to customers in the real estate industry, details of which are set out in the section headed "Proactive Credit Management and Provision for Impairment of Trade and Bills Receivables" in the business plans. This led to a significant decrease of 42.0% in the Group's revenue generated from sales to customers in the construction industry and property and infrastructure projects in Mainland China during the year ended 31 December 2023, as compared to the decrease of 39.7% in 2022. Conversely, as per the 2023 GDP report published by the Census and Statistics Department ("C&SD") in Hong Kong, the gross domestic fixed capital formation ("GDFCF") of both private and public sectors in the building and construction industry in Hong Kong was increased by 5.6% in 2023, as compared to the increase of 9.0% in 2022. Such increase was primarily attributable to the private sector's expenditure on building and construction projects, which was increased by 12.1% in 2023, and the public sector's expenditure, which was, however, decreased by 1.8% in 2023, as compared to 2022. The Group's revenue generated from the sale to customers in the building and construction sector in Hong Kong increased by approximately 5.0% in 2023, as compared to the decrease of 8.7% in 2022.

Furthermore, the nominal GDP of the wholesale and retail trade sector in Mainland China was increased by 7.5% in 2023, as compared to the increase of 3.6% in 2022, as reported by the NBSC. Retail sales of furniture goods, including paint and coating products for furniture manufacturing purposes, was decreased by 7.3% in 2023, as compared to the decrease of 1.9% in 2022. Additionally, the retail sales of construction and decorative paint and coating products was decreased by 17.9% in 2023, as compared to the decrease of 2.8% in 2022. The Group's revenue from the sales to the wholesale distributors and retail distributors in Mainland China was decreased by 19.4% in 2023, as compared to the decrease of 18.4% in 2022, which exceeded the average in the performance of the wholesale and retail trade sectors. The use of architectural paint and coating products is important to the paint and coating market in Mainland China, of which contributed more than 50% of the total market share. This substantial contribution exceeded sales in wholesale and retail, usage in industrial manufacturing, and export activities. The production volume (measured in tonnes) of paint and coating products was increased by 3.5%, albeit a decrease of 7.0% in the overall accumulated construction area in the real estate sector. Additionally, there was an increase of 3.0% in the sales of these products (measured in Renminbi). The overall demand for paint and coating products in Mainland China was decreased significantly, particularly within the real estate sector in Mainland China, while the supply of these products from the domestic manufacturers has a significant upsurge. The post-COVID-19 and challenging market conditions prompted paint and coating manufacturers to strategically boost their production volume and the market shares by offering discounts, which intensified the competition in the industry. Consequently, the competitive landscape within the paint and coating industry in Mainland China was much more intense when compared to 2022. This was one of the key reasons why the decrease in the sales to distributors was more than the decrease in the performance of the wholesale and retail trade sectors in Mainland China. In Hong Kong, paint and coating products are classified as the paints and other building renovation materials under the other consumer goods, not elsewhere classified (the "Other Consumer Goods") of the retail sales. According to the Report on Monthly Survey of Retail Sales in December 2023 published by the C&SD, the sales of the Other Consumer Goods were increased by 22.3% in 2023, as compared to the increase of 3.9% in 2022. However, when comparing the growth rate of the retail sales in Hong Kong, the Group's sales revenue generated from the sales to distributors in Hong Kong in 2023 recorded a decrease of 16.9%, which was contrary to the growth rate of the retail sales in Hong Kong in 2023. This variance was primarily attributable to the reduction in payment terms and credit control provided to customers.

In 2023, the paint and coating industry in Mainland China was benefited from the low prices of raw materials, which reduced the production costs. This was due to the anticipated increase in the crude oil supply and subsequent decrease in the international crude oil prices after several measures were implemented by the G7 and the European Union in December 2022. These measures established an initial price cap of US$60 per barrel on Russian seaborne oil and included an adjustment mechanism to maintain the cap at 5% below the market price, with regular reviews in every two months. Despite the high inflation in 2023, these measures resulted in a decrease of 18.1% in the international crude oil prices, with the lowest price reaching US$66 per barrel in March 2023. Consequently, despite there was a decrease of 29.8% in the Group's sales of paint and coating products, the amount of gross profit was increased by 10.5% to approximately HK$157.54 million, as compared to 2022. The increase was also due to the implementation of effective business revamp measures and initiatives resulting from the establishment of the business segment of property investment, which contributed to a significant increase in rental income from investment properties, and the achievement of cost savings through the integration of underutilised production plants in Mainland China. These directly resulted in the increase in gross profit and the improvement of the gross profit margin for the year ended 31 December 2023, as compared to 2022.

RESULTS

Despite a significant 29.8% decrease in sales during the year ended 31 December 2023, the Group experienced a significant improvement in profitability, with increases in both the amount of gross profit and the gross profit margin due to the ongoing enhancement of effective business revamp measures and initiatives. Additionally, the property sales in Mainland China were sluggish in 2023, leading to a significant negative impact on the operating cash flows of the developers in the construction industry and property and infrastructure projects in Mainland China. This also impacted the valuation of investment properties in Mainland China. These market conditions affected the payment records of the Group's customers in the construction industry and from property and infrastructure projects in Mainland China, as well as the valuation of investment properties in Mainland China. Despite the Group's efforts to address these challenges, based on delayed payment records from customers and changes in investment property valuations, the Group had to make the provision for the impairment of trade and bills receivables of HK$50.13 million, as well as the net fair value loss on investment properties of HK$11.48 million. This contrasts with the provision for the impairment of trade and bills receivables of HK$16.31 million and the net fair value gain of HK$0.59 million recorded in 2022. Reflecting the combined effects, the Group recorded a loss of approximately HK$66.98 million for the year ended 31 December 2023, as compared to the loss of approximately HK$98.47 million in 2022. Following the improvement of profitability and operational efficiencies, resulting in cost savings in selling and distribution expenses and administrative expenses, the amount of loss of the Group in 2023 was primarily due to the provision for impairment of trade and bills receivables of HK$50.13 million, the net fair value loss on investment properties of HK$11.48 million, the increase in the finance costs of HK$5.81 million, and the absence of the combined effect of positive contributions from one-off transactions of subsidy receipts and one-off expenses related to the integration of production plants in Mainland China.

In addition, as at 31 December 2023, the Group experienced a decrease of 13.9% in the amount of net assets, as compared to the decrease of 2.3% as at 31 December 2022. This negative outcome was attributable to a couple of non-cash factors, including (i) the provision for impairment of trade and bills receivables of approximately HK$50.13 million; (ii) the net fair value loss on investment properties of approximately HK$11.48 million; and (iii) the exchange difference on the translation of foreign operations of approximately HK$23.18 million, in relation to the depreciation of 2.4% of Renminbi between the two financial year-end dates. Notably, as a result of prudent financial and strategic planning (further information on which is included under the "Strategic Financial Restructuring and Optimisation" section in the business plans), the Group's net working capital (net current assets) recorded a substantial increase of 59.1%, which was primarily attributable to the optimised capital structure achieved through the refinancing of the short-term bank borrowings by the long-term borrowings. This arrangement positively affected the Group's liquidity position and financial stability when compared to 2022.

The enhancements in gross profit, gross profit margin, liquidity position and financial stability of the Group are the indicators of the Group towards profitability and enduring foundation. The Group continues to put effort into rectifying inefficiencies amid the operation, resulting in cost reduction and increase in productivity. Looking ahead, it is imperative for the Group to consistently monitor its financial performance and diligently identify and address any remaining inefficiencies or areas at concern.

BUSINESS OUTLOOK

It is expected that the global uncertainties and geopolitical issues will continue to affect the world in 2024. Through a series of corporate consolidations and merger acquisitions of the paint and coating industry in Mainland China in 2023, a number of paint and coating manufacturers have shifted their focus on the production of industrial paint and coating products, thereby reducing their reliance on the production and sales of the architectural paint and coating products. Moreover, there is an increasing number of paint and coating manufacturers to expand their production scale by acquiring brands of architectural paint and coating products. Furthermore, horizontal acquisitions have taken place in the paint and coating industry as a result of incursions by the building material industry to bolster the market shares of its conglomerates. As a result, the paint and coating industry is expected to confront increased competition, when compared to 2023, along with a multitude of new challenges.

On the supply side, the Chinese government has recently implemented the project whitelist mechanism by identifying commercially viable projects for property developers in the whitelist. Therefore, these property developers have secured development loans for these projects, thereby facilitating the generation of operating cash flows and supporting the stable and healthy development of the real estate market. In addition, on the demand side, the ongoing government policies including the largest reduction of the five-year loan prime rate, have led to a substantial increase in home sales in China for the first time since mid-2022. This has had a positive impact on the liquidity of property developers in Mainland China. In order to support the economy and stabilise the sluggish real estate market, the Chinese government has launched a large-scale government-led urban redevelopment program in Mainland China, which is expected to include the development of affordable housing projects, the redevelopment of shantytowns, and the construction of recreational facilities. This program is expected to bolster the stability and growth of the real estate market in Mainland China. The Group considers that these measures will drive an overall increase in demand for paint and coating products.

Furthermore, with regard to the prices of the raw materials at the beginning of 2024, there has been a significant increase in the prices of key raw materials, such as titanium dioxide and solvents. The surge in the prices of solvent solution was primarily caused by the decrease in the production by OPEC+, while the rise in titanium dioxide prices was mainly attributable to the strong export demand, resulting in a global shortage and subsequent local price hikes. These price escalations signify substantial changes in the raw materials market driven by specific supply and demand factors. The Group is actively monitoring the gross profit margin and operational margin and will take necessary proactive and strategic measures and positioning. The Directors maintain a cautious yet optimistic outlook for profitability in the paint and coating industry.

In the context of fierce market competition and challenging economic conditions, the Group has effectively utilised its advantages of stable products, reliable quality and on-time delivery to gain a competitive advantage. This strategic advantage has led to the improvement in the profitability and enhancement of operating efficiencies of the Group. The Group has fortified its financial position by enhancing current financial liquidity and stability. In view of the Group's proactive and strategic measures and positioning, the Directors remain cautiously optimistic about the prospects of paint and coating manufacturers in Mainland China and Hong Kong in 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In order to enhance and establish sustainable profitability while addressing supply chain challenges, such as the volatility of raw material prices, the Group continued to enact effective business revamp measures and initiatives, which including the conversion of the underutilised production plants and office premises into investment properties. This strategic move allowed the Group to overcome challenges, optimise assets allocation, and improve its operating cash flow. As at 31 December 2023, the total value of the Group's investment properties had increased significantly to approximately HK$309.09 million from approximately HK$240.94 million as at 31 December 2022. Investment properties now represent 31.8% of the Group's total assets, providing a robust foundation for the business segment. This signified the Group's commitment to maximising value through strategic asset management. Despite this favourable development, the Group adopted a cautious and focused approach to managing its investment portfolio in 2023 to align with its overall business strategy. The paint and coating business remained the largest segment, while the second segment focused on property investment.

For the paint and coating business, 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

In 2023, the Group's total revenue amounted to approximately HK$469.09 million, which included the sales of paint and coating products of HK$448.48 million and rental income from investment properties of HK$20.61 million. The amount of the total revenue represented a significant decrease of 27.1%, as compared to the Group's total revenue of approximately HK$643.05 million in 2022, which included sales of the paint and coating products of HK$639.13 million and rental income from investment properties of HK$3.92 million.

PAINT AND COATING PRODUCTS

For the year ended 31 December 2023, the Group's revenue from the sales of the paint and coating products amounted to approximately HK$448.48 million, representing a significant decrease of 29.8%, as compared to approximately HK$639.13 million in 2022. The following sets forth an analysis of the Group's revenue from the sales of the paint and coating products for the year ended 31 December 2023 (with comparative figures for the year ended 31 December 2022):

	Year ended 31 December				
	2023		2022		% of net
	HK$'000	**%**	HK$'000	%	change
Industrial paint and coating products	**172,863**	**38.6**	227,764	35.6	(24.1)
Architectural paint and coating products	**178,225**	**39.7**	273,717	42.8	(34.9)
General paint and coating and ancillary products [1]	**97,387**	**21.7**	137,653	21.6	(29.3)
	448,475	**100.0**	639,134	100.0	(29.8)

(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 38.6% (2022: 35.6%), 39.7% (2022: 42.8%) and 21.7% (2022: 21.6%) of the total revenue generated from the sales of the paint and coating products in 2023, respectively. The Group continued to focus on Mainland China market which contributed to 86.8% (2022: 89.3%) of the amount of the total revenue generated from the sales of the paint and coating products in 2023.

Significant decrease in demand for paint and coating products from the real estate market in Mainland China

The Group experienced a significant decrease in sales of its architectural paint and coating products from the real estate market in Mainland China, with a decrease of 42.0% for the year ended 31 December 2023, as compared to the same in 2022. Such decrease was primarily due to several key developments. Firstly, the persistent sluggishness of the real property market since 2022 led to a reduced construction area for new residential and commercial property projects in Mainland China, resulting in the continuous decreasing demand for paint and coating products from the real estate market. Secondly, the credit crunch in the real estate market in Mainland China and ongoing concerns regarding the sustainability and going concern issues related to property developers in the region prompted the Group to be cautious in its sales strategies in order to maintain a healthy and stable financial position and performance. This adjustment reduced the sales of paint and coating products in the real estate market. Lastly, the overall economic slowdown in the real estate market in Mainland China and increased competition in the paint and coating industry in the region also contributed to the decrease in sales.

Meanwhile, this decrease also had a direct and indirect negative influence on the demand for general paint and coating and ancillary products, which are used in conjunction with the architectural paint and coating products.

Significant decrease in demand for paint and coating products from the industrial manufacturing market in Mainland China

The Group experienced a significant decrease in sales of its industrial paint and coating products from the industrial manufacturing market in Mainland China, with a decrease of 32.5% for the year ended 31 December 2023, as compared to the same in 2022. The primary factors contributing to this decrease were challenging economic conditions, which is evidenced by a significant decrease in exports indicating reduced demand for manufacturing goods. Furthermore, the China Manufacturing Purchasing Managers Index recorded below 50.0 for most of the year 2023. In addition, the sluggish performance of the real estate industry led to continuous decreasing demand for architectural paint and coating products. Several paint and coating manufacturers responded by enhancing their production capacity for industrial paint and coating products and implementing competitive pricing strategies to attract potential users. The combination of reduced demand in the industrial paint and coating product sector and intensified competition led to a significant sales decrease of 32.5% for the Group's industrial paint and coating products for the year ended 31 December 2023.

Meanwhile, this decrease also had a direct and indirect negative influence on the demand for general paint and coating and ancillary products, which are used in conjunction with the industrial paint and coating products.

Geographical Analysis of Revenue

Geographically, for the year ended 31 December 2023, the Group's revenue generated from the sales in Mainland China and Hong Kong accounted for approximately 86.8% and 13.2%, respectively, as compared to approximately 89.3% and 10.7%, respectively for the year ended 31 December 2022. Most of the Group's revenue was generated from the sales to customers in the Southern China, the Central China and the Eastern China. Revenue generated from the sales to the customers in these regions, in aggregate, accounted for approximately 81.4% of the Group's total amount of revenue for the year ended 31 December 2023, as compared to approximately 83.4% in 2022.

Significant decrease in the sales of paint and coating products to construction and renovation contractors for property and infrastructure projects in the Southern China, the Central China and the Eastern China

For the year ended 31 December 2023, the Group experienced a significant decrease in the sales of paint and coating products to construction and renovation contractors for property and infrastructure projects in the Southern China, the Central China and the Eastern China, with a total decrease of HK$81.77 million. Specifically, the sales decreased by 35.5% to approximately HK$69.88 million in the Southern China, 51.2% to approximately HK$25.27 million in the Central China, and 42.6% to approximately HK$22.57 million in the Eastern China. These decreases were attributable not only to the sluggish economic environment but also to the escalating financial strain among property developers, resulting in the reduction of revenue from the sales during the year.

In response to customer risks, in alignment with actions taken by other paint and coating manufacturers, the Group adjusted its sales strategy by reducing production capacity in architectural paint and coating products, focusing on industrial paint and coating products for industrial manufacturers, and implementing more stringent credit terms for its real estate customers. Furthermore, the Group enhanced the straight implementation of the credit period provided to its real estate customers. Cumulatively, these measures significantly contributed to the overall decrease of HK$92.59 million, representing a 42.0% reduction in the Group's revenue generated from the sales of paint and coating products to construction and renovation contractors for property and infrastructure projects in Mainland China for the year ended 31 December 2023.

Significant decrease in the sales to industrial manufacturers in the Southern China and the Eastern China

For the year ended 31 December 2023, the Group's revenue from the sales of paint and coating products to industrial manufacturers in the Southern China decreased by HK$39.88 million and the Eastern China decreased by HK$7.81 million, marking a decrease of 32.0%, as compared to a 3.1% decrease in 2022. The main factors contributing to this downturn were (i) a 3.9% decrease in the export of goods; (ii) Chinese government's regulations promoted the adoption of Low-VOC Coatings, leading several industrial manufacturers to switch to using powder coatings; and (iii) heightened competition in the industrial paint and coating products market sector. Furthermore, some paint and coating manufacturers adjusted their production capacity from architectural paint and coating products to industrial paint and coating products. The overall intensification of the paint and coating industry in the industrial sector was driven by environmental concerns, government-supported upgrades, an increase in overall production capacity in the industrial paint and coating market sector, and decreased demand from the overall industrial paint and coatings products market sector due to a reduction in export of goods. These combined factors significantly affected the Group's overall revenue generated from the sales to industrial manufacturers in Mainland China, precipitating a decrease of HK$51.40 million or 32.5% for the year ended 31 December 2023.

Significant decrease in the sales of paint and coating products to distributors in the Southern China and the Eastern China

The Group experienced a significant decrease in the sales of paint and coating products to the distributors in the Southern China and the Eastern China, resulting in a total decrease of HK$35.35 million for the year ended 31 December 2023. Specifically, sales decreased by 16.6% to approximately HK$111.12 million in the Southern China and 32.0% to approximately HK$28.12 million in the Eastern China. This decrease was driven by the sluggish real estate market, with a substantial drop in sales of completed and second-hand properties in Mainland China. Consequently, there was a notable decrease in the demand for building, fitting out work, and renovation projects. These factors significantly affected the Group's revenue generated from the sales of paint and coating products to the distributors in Mainland China, which was decreased by HK$37.26 million or 19.4% for the year ended 31 December 2023.

Decrease in the sales of paint and coating products to distributors in Hong Kong

For the year ended 31 December 2023, the Group's revenue generated from the sales of paint and coating products to the distributors in Hong Kong was decreased by 16.9%, as compared to an increase of 4.2% in 2022. Apart from the impact of proactive credit management and provision for impairment of trade and bills receivables, such decrease was also influenced by the sluggish real estate market, leading to a reduction of sales of completed and second-hand properties in Hong Kong. Consequently, there was a notable decrease in demand for building, fitting out work, and renovation projects. Additionally, public information indicated a decrease of 2.7% in the sales of overall commercial and residential properties in Hong Kong, while sales of first-hand completed residential properties in the private sector in New Territories, Hong Kong dropped by 22.4%.

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. Fluctuations in crude oil prices directly and indirectly impact the prices of these raw materials, thereby significantly affecting the profitability of paint and coating manufacturers, as raw material costs comprise a substantial portion of the total production cost. In 2023, the anticipated increase in crude oil supply and subsequent decrease in international crude oil prices were observed following measures implemented by the G7 and the European Union in December 2022. These measures set an initial price cap of US$60 per barrel on Russian seaborne oil, along with an adjustment mechanism to maintain the cap at 5% below the market price, subject to regular reviews every two months. Despite prevailing high inflation in 2023, these measures resulted in a 18.1% decrease in international crude oil prices, with the lowest price reaching US$66 per barrel in March 2023. While paint and coating manufacturers experienced an improvement in their gross profit margin, such enhancement did not correspond with the decrease in the raw material prices. This disparity could be attributable to their strategic focus on operational efficiency, exemplified by recent expansions involving the establishment of new production facilities and the acquisition of substantial manufacturing plants in Mainland China, with the objective of attaining economies of scale in production. Consequently, these developments have intensified competition within the paint and coating market.

In addition to the decrease in raw material prices in Mainland China market, the Group also executed strategic initiatives to optimise raw material costs and diversify sourcing options. This led to a reduction of the raw material portion in the cost of sales to 86.3% in 2023, down from 87.2% as compared to 2022, demonstrating a concerted effort to drive efficiencies through strategic partnerships, as detailed in the 2022 Annual Report. Additionally, the Group achieved a notable 38.4% reduction in overall raw material costs in the cost of the sales, surpassing the 29.8% decrease in sales, thereby emphasising substantial improvements in cost management practices and the strategic alignment of partnerships.

Direct and indirect labour cost

In comparison to the year ended 31 December 2022, the direct and indirect labour cost was decreased by 33.8% for the year ended 31 December 2023. This significant decrease was primarily a result of the Group's efforts to enhance its manufacturing operation processes and optimise production lines, resulting in a reduction of direct and indirect labour cost.

Depreciation and production overhead

For the year ended 31 December 2023, the Group achieved a substantial 32.7% reduction in depreciation and production overhead costs, aligning with the 29.8% decrease in the sales of paint and coating products. This cost reduction was attributable to the increased production efficiency, resulting in a 25.8% decrease in depreciation and a 40.8% decrease in production overhead. The conversion of underutilised production plants into investment properties contributed to a 25.8% reduction in depreciation, while comprehensive cost reduction initiatives optimised production processes and mitigated superfluous expenses.

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

As previously noted, the paint and coating industry enjoyed a favourable downward trend in relation to fluctuations in low to medium raw materials prices, as compared to 2022. This trend was caused by the downward adjustment of international crude oil prices, a sufficient supply of raw materials in Mainland China, and the controlled adjustment of raw material prices by the Chinese government throughout 2023. Additionally, the revenue generated from the sales of paint and coating products was decreased by 29.8%, as compared to the year ended 31 December 2022. Nevertheless, the Group's achieved a satisfactorily increase in gross profit margin from the sales of paint and coating products by 8.8 percentage points to 30.5%, up from 21.7% in 2022, as a result of effective business revamp measures and initiatives, such as the strategic integration of production facilities in the Southern China.

The Group's gross profit generated from the sales of paint and coating products was slightly decreased by HK$1.69 million, as compared to 2022. The substantial 29.8% sales decrease resulted in an estimated gross profit decrease of approximately HK$41.33 million. Nonetheless, a marginal increase in the gross profit margin, amounted to approximately HK$39.64 million, effectively offset this reduction. Consequently, the Group's loss attributable to the owners of the parent company was decreased to approximately HK$67.12 million in 2023 from loss of approximately HK$98.08 million in 2022.

Other Income and Gains, Net

The net amount of other income and gains for the year ended 31 December 2023 showed a significant decrease of 78.9% to HK$7.69 million, as compared to HK$36.40 million for the year ended 31 December 2022. This decrease was primarily attributable to the absence of one-off transactions, in particular subsidy receipts from the Chinese government of HK$29.43 million for removal of solvent production lines and storage tanks in the Shajing Production Plant and Hubei Production Plant.

Selling and Distribution Expenses and Administrative Expenses

After a 29.8% decrease in the sales of paint and coating products, the Group implemented stringent cost-saving measures in the associated selling and distribution expenses, resulting in a significant decrease. Consequently, the selling and distribution expenses for the year ended 31 December 2023, were decreased by 31.1% to approximately HK$62.29 million, as compared to approximately HK$90.46 million for the year ended 31 December 2022. Notably, remuneration for salespersons was decreased by HK$13.02 million, transportation costs were decreased by approximately HK$7.56 million, advertising expenses were decreased by approximately HK$1.61 million, entertainment and dining expenses with customers were decreased by approximately HK$1.52 million, and rental expenses for sales administration were decreased by approximately HK$1.30 million, in comparison to 2022.

Following the integration of the production plants in Mainland China in 2022, the administration expenses for the year ended 31 December 2023 were significantly decreased by 25.1% to approximately HK$83.91 million, as compared to approximately HK$112.07 million for the year ended 31 December 2022. Notably, remuneration and other related expenses (including depreciation, consumable goods, etc.) were decreased by approximately HK$18.67 million, primarily due to the cost savings from the integration of the production plants in Mainland China, as compared to 2022. Additionally, the absence of professional fees and demolition expenses incurred for removing solvent production lines and storage tanks in both the Shajing Production Plant and Hubei Production Plant, which amounted to HK$9.99 million in 2022. Lastly, staff share option expenses was decreased by approximately HK$3.93 million, as compared to 2022.

Other Expenses, Net

For the year ended 31 December 2023, the amount of other expenses was decreased by 3.9% to approximately HK$56.57 million, as compared to approximately HK$58.86 million in 2022, primarily driven by a combination of factors. Favourable factors contributing to this result included a significant decrease in staff termination costs by HK$20.36 million, a decrease in local taxes, levies, and stamp duties by HK$2.88 million, the absence of provision for impairment of right-of-use assets and property, plant and equipment of HK$8.00 million, the reversal of provision for impairment of right-of-use assets and property, plant and equipment of HK$4.64 million, and a decrease in write-off of certain fixed assets of HK$1.30 million. However, adverse factors included a substantial increase in the provision for impairment of the trade and bills receivables, amounting to approximately HK$33.82 million, the net fair value loss on investment properties of HK$11.48 million and a loss on the revaluation of right-of-use assets and property, plant and equipment of HK$1.80 million.

During the year ended 31 December 2023, the Group recorded staff termination payments of approximately HK$1.22 million, signifying a substantial decrease of 94.3% from approximately HK$21.58 million in 2022. This adjustment in 2023 was a necessary step following the completion of the integration of production plants in Mainland China in 2022.

The Group made a provision for the impairment of trade and bills receivables in accordance with HKFRS 9, considering both historical credit loss experience and forward-looking information. Additionally, the Group applied the probability of default approach as an additional methodology for assessing property developers and contractors working for property developers, evaluated by a professional valuer as at 31 December 2023. However, the Group encountered challenges due to economic uncertainty stemming from heightened financial stress among property developers in Mainland China. Despite a 33.9% decrease in the gross amount of trade and bills receivable as at 31 December 2023, an additional provision for the impairment of trade and bills receivables of HK$50.13 million was necessary, resulting in a 63.0% increase in the gross provision for the impairment of trade and bills receivables to HK$121.56 million as at 31 December 2023.

Following the adjustment and implementation of ongoing business revamp measures and initiatives to overcome challenges presented by the current environment, the Group was able to improve its profitability, like increase its gross profit margin by 8.8 percentage points to 30.5%, up from 21.7% in 2022. Despite this improvement, the Group recorded a segment loss of HK$58.15 million for the year ended 31 December 2023, which represents a significant decrease of 32.7%, as compared to the segment loss of HK$86.37 million in 2022. The decrease in segment loss was primarily attributable to the improvement in the gross profit margin and the cost savings in several main operations. The segment loss for the year ended 31 December 2023, was mainly driven by the provision for the impairment of trade and bills receivables of approximately HK$50.13 million and the 29.8% decrease in the sales of paint and coating products.

PROPERTY INVESTMENT

As previously indicated, the Group implemented ongoing measures and initiatives to revamp its business operations. Within the framework of the strategy, the Group strategically transferred the underutilised production plants into investment properties. With this decision, the Group not only overcame challenges, but also optimised its asset allocation and improved its operating cash flow. As at 31 December 2023, the Group's investment properties had significantly increased in value to HK$309.09 million, up from HK$240.94 million as at 31 December 2022, and accounted for 31.8% of the Group's total assets. The ongoing movement continued to strengthen the Group's business segment of property investment, providing stakeholders with greater transparency and tracking. This shows the Group's commitment to maximising value through strategic asset management. Despite this positive development, the Group took a cautious and focused approach to managing its investment portfolio in 2023 to align with its overall business strategy.

As at 31 December 2023, the Group's investment property portfolio comprised of 6 properties (31 December 2022: 3) with a total land area of 175,669.5 square meters ("sq.m.") (31 December 2022: 126,472.7 sq.m.) and a total gross floor area of 76,300.4 sq. m. (31 December 2022: 46,612.4 sq.m.). These investment properties are industrial properties and a commercial property located in Mainland China, which generate stable recurring income and cash flows for long-term strategic and investment purposes.

Revenue generated from property investment for the year ended 31 December 2023 amounted to approximately HK$20.61 million, marking a substantial increase from approximately HK$3.92 million in 2022. Similarly, the segment profit for the year ended 31 December 2023 amounted to HK$6.36 million, as compared to approximately HK$4.27 million in 2022. This surge in the segment profit can be primarily attributable to the combined effect of a significant increase in rental income from investment properties, totalling approximately HK$16.69 million and changes in net fair value on investment properties (including loss of HK$11.48 million in 2023 and the absence of the gain of approximately HK$0.59 million in 2022). Notably, the full-year leasing of the factory in Shajing in 2023, as opposed to just one month in 2022, played a key role in driving this increase. Additionally, the absence of a subsidy receipt from the Chinese government of approximately HK$1.87 million for relocating the main factory entrances in the Shanghai Complex in 2022 further influenced the increase in segment profit. Moreover, an increase in property taxes related to the expanded portfolio of investment properties for the year ended 31 December 2023 also factored into this outcome.

The Group's business model is designed to achieve a balance between its short-term capital requirements and long-term financial strength. To achieve this objective, the Group strategically repositions its production plants and complexes into investment properties that generate stable recurring rental income and capital appreciation. Additionally, the Group may selectively divest certain properties to fund its business operations and expansion plans. This approach allows the Group to fund its operations through cash flows from rental income and also generate additional capital from property sales, thereby strengthening its overall financial position. Furthermore, the Group can potentially realise capital appreciation on its investment properties over the long-term, leveraging prime locations to enhance its returns.

Profitability Analysis

The paint and coating industry encountered a myriad of challenges in 2023, including global conflicts, heightened interest rates, and financial constraints. However, amidst these adversities, Mainland China's manufacturing industry witnessed encouraging developments. Notably, the industry's production and the sales of paint and coating products exhibited growth. Nonetheless, surging competition and dwindling demand, particularly in the real estate sector, posed significant challenges for the paint and coating industry. To address these obstacles, the Group emphasised stable product quality, timely delivery, and cost-saving measures. Despite a marked decrease in the sales of paint and coating products, the Group achieved an augmented gross profit margin, which was attributable to the effective business revamp measures and initiatives. These included the consolidation of underutilised production plants and the optimisation of investment property portfolios. Furthermore, the industry benefited from reduced manufacturing costs due to low raw material prices, which contributed to an upsurge in gross profit margin. These strategic manoeuvres and cost-saving initiatives culminated in improved profitability and gross profit margin for the Group, underscoring a judicious and adaptive approach to the challenges encountered in the paint and coating industry in 2023.

From an alternative perspective, despite incurring a loss of approximately HK$66.98 million for the year ended 31 December 2023 (31 December 2022: loss of approximately HK$98.47 million), the Group, excluding specific costs, losses, and gains, might have generated a profit of HK$28.69 million for the year ended 31 December 2023 (31 December 2022: loss of approximately HK$7.24 million). The mentioned costs, losses, and gains encompassed (i) depreciation of property, plant, and equipment; (ii) staff termination costs; (iii) provision for impairment of trade and bills receivables; (iv) (reversal of provision for)/provision for impairment of right-of-use assets; (v) (reversal of provision for)/provision for impairment of items of property, plant and equipment; (vi) depreciation of right-of-use assets; (vii) loss on revaluation of property, plant and equipment; (viii) loss on revaluation of right-of-use assets; (ix) finance costs; (x) share option expenses; (xi) fair value gain/(loss) on investment properties, net; and (xii) income tax. This represents a significant improvement from the reported loss of approximately HK$66.98 million for the year ended 31 December 2023, reflecting the Group's commitment to driving its business revamp measures and initiatives towards greater efficiency and sustainability.

In addition to the improvement in the gross profit margin, the Group's profitability has been influenced by various factors, both positive and negative, including:

1. Revenue from the sales of paint and coating products and the rental income from investment properties – Excluding the impact of fluctuating Renminbi exchange rates, the Group's revenue generated from the sales of paint and coating products recorded a significant decrease of 29.8% in 2023, reflecting the challenging economic environment in the paint and coating industry. This industry reported an overall decrease in total profits for 2023, driven by heightened competition, pricing differentiation and diminished profit margins among manufacturers due to reduced demand from the sluggish real estate sector and changing industrial demands across sectors. Conversely, the rental income from investment properties experienced a remarkable upsurge of 426.6% in 2023. This surge was primarily attributable to the full-year leasing of the factory in Shajing in 2023, as opposed to just one month in 2022.

2. Cost of raw materials – As mentioned in the section headed "Cost of sales" above, the cost of sales experienced a 37.8% decrease for the year ended 31 December 2023, a more significant decrease compared to the 29.8% decrease in sales in 2022. This decrease was mainly attributable to the reduced cost of raw materials resulting from lower international crude oil prices. Additionally, the 33.8% decrease in direct and indirect labour costs, along with the 32.7% decrease in depreciation and production overhead, contributed to this improvement. These positive changes are the outcome of effective business revamp measures and initiatives.

3. Other income and gains, net – During the year ended 31 December 2023, there was a notable 76.3% decrease (approximately HK$31.02 million) in other income and gains, as compared to 2022. This decrease was primarily attributable to the absence of subsidy receipts of approximately HK$27.06 million from the Chinese government for removing solvent production lines and solvent storage tanks at the Shajing Production Plant, among other factors.

4. Staff costs – When compared to 2022, staff costs were decreased by approximately HK$30.52 million or 24.2% for the year ended 31 December 2023. Furthermore, as at 31 December 2023, there were 495 employees (excluding the Directors), which is 15.1% lower than the 583 employees as at 31 December 2022.

5. Selling and distribution expenses – For the year ended 31 December 2023, the selling and distribution expenses were decreased by 31.1% to approximately HK$62.29 million, as compared to approximately HK$90.46 million in 2022. The percentage of these expenses relative to the sales of paint and coating products improved by 2.1%, decreasing to 13.9% from 14.2% for the year ended 31 December 2022. Aside from the decrease in related expenses due to the 29.8% decrease in the sales of paint and coating products, the primary contributing factor was the termination of the distribution centre rental in Zhongshan during the year ended 31 December 2023.

6. Other expenses, net – For the year ended 31 December 2023, the Group's other expenses amounted to HK$69.96 million, as compared to approximately HK$59.78 million in 2022. A significant decrease of 94.3% in staff termination payments to approximately HK$1.22 million from HK$21.58 million in 2022, was a necessary adjustment following the integration of the production plants in Mainland China in 2022. The substantial decrease reflects the successful completion of this integration and the subsequent streamlining of operations, contributing to improved efficiencies. The impairment provision for trade and bills receivables of HK$50.13 million, in contrast to HK$16.31 million in 2022, significantly contributed to the overall increase in other expenses for the year ended 31 December 2023. The amount of the impairment provision for trade and bills receivables was determined following the prudent risk management practices and accounting standards, confirming the Group's commitment to effectively managing credit risks and ensuring financial stability. Additionally, the change in net fair value loss on investment properties of HK$11.48 million was determined by professional valuers, taking into account the dynamic conditions of the property market.

7. Finance costs – Finance costs for the year ended 31 December 2023 was increased by 78.2%, as compared to the same in 2022, primarily due to a significant rise in the average borrowing interest rate of both one-month HIBOR (Hong Kong Interbank Offered Rate). According to the Hong Kong dollars interest settlement rates, the average one-month rates for 2023 were increased between 15.0% and 2,163.8%, as compared to the corresponding months in 2022.

8. Renminbi exchange rate against Hong Kong dollars – The depreciation in Renminbi during the year ended 31 December 2023 had a positive financial impact on the Group's operating results.

BUSINESS OUTLOOK AND BUSINESS PLANS

BUSINESS OUTLOOK

Looking ahead to 2024, the paint and coating industry in Mainland China and Hong Kong is poised for steady growth, benefiting various sectors, such as construction, automotive, and industrial manufacturing as the economies in both regions start to recover.

Furthermore, the industry is expected to shift towards more sustainable and environmentally-friendly products, driven by the increased awareness of environmental issues and a growing demand for eco-friendly products. In Mainland China, the industry is likely to continue benefiting from the government's emphasis on urbanisation, particularly with ongoing projects related to indemnificatory apartments and shanty area rebuilding. In Hong Kong, the government focuses on sustainability and green initiatives creates opportunities for paint and coating manufacturers to offer eco-friendly products, aligning with the government's plan to develop a green economy and invest in sustainable infrastructure.

Overall, the paint and coating industry in Mainland China and Hong Kong is anticipated to demonstrate continued growth in 2024. By focusing on offering innovative and sustainable products and services, the Group can effectively capitalise on these opportunities and meet the growing demand in these markets, positioning itself for success in the evolving industry landscape.

BUSINESS PLANS

As one of the paint and coating manufacturers in Mainland China and Hong Kong, the Group has faced numerous significant challenges in recent years. However, in 2023, the Group initiated a comprehensive restructuring of its business model to optimise profitability, strengthen financial stability, enhance liquidity, and secure additional financial resources from external sources, including financial institutions and its holding company and the fellow subsidiaries. During the year 2023, the paint and coating industry faced persistent intense competition, price differentiation, and decreased profit margins among manufacturers. Additionally, contraction in demand arising from the sluggish real estate sector and changing industrial demands across various sectors resulted in a 29.8% decrease in the sales of paint and coating products in 2023.

Consequently, in 2024, the Group aims to enhance the value and volume of the sales of paint and coating products, optimise financing facilities, minimise the costs of borrowings, and improve the recovery from trade and bills receivables. To achieve these objectives, the following business initiatives are currently being implemented:

1. **Leveraging Strategic Partnerships for Product Expansion and Market Reach**

   Starting from 2022, the Group has strategically collaborated with other manufacturing factories to diversify its portfolio of paint and coating products, leveraging mutual patent-sharing and innovative formulas to provide customers with an expanded array of pricing choices. In 2023, the Group successfully introduced modified products to both existing and new customers in Mainland China, marking an expansion of its market reach. Consequently, the Group's ongoing efforts to broaden its product range through partnerships enable it to meet evolving customer preferences and needs, fostering customer retention and acquisition.

   Moreover, the Group's initiative to offer a wider range of pricing options is driven by the utilisation of patents, new formulas, and advanced raw materials. This enables the Group to accommodate customers across various budget segments, thereby enlarging its customer base and bolstering sales.

   In addition, the Group's commitment to customer-centric product development and market expansion is a strategic step in the right direction. These efforts are expected to drive increase in the sales and customer satisfaction, ultimately leading the Group to the growth in the sales of paint and coating products in the future.

2. **Strategic Financial Restructuring and Optimisation**

   Strategic Borrowing Arrangements and Enhanced Liquidity: Impact on Net Current Assets

   During the year 2023, the Group entered into 3-year loan agreements with its holding company and the fellow subsidiaries, which qualified as fully exempted connected transactions and were based on normal commercial terms. As at 31 December 2023, the outstanding balance was HK$95.97 million, denominated in both Hong Kong dollars and Renminbi. The purpose of these borrowing arrangements was to optimise the Group's liquidity and expedite the process of swapping by securing low-cost borrowings in Mainland China and replacing high-cost borrowings in Hong Kong. Consequently, as at 31 December 2023, the amount of the Group's net current assets was significantly increased by 59.1% to HK$114.96 million (31 December 2022: approximately HK$72.25 million).

Restructuring of Financing Arrangements for Enhanced Cost Efficiency

During the year 2023, the Group expanded its banking facilities in Mainland China and optimised financing by securing low-cost borrowings in Mainland China and replacing the high-cost borrowings in Hong Kong. Consequently, as at 31 December 2023, bank borrowings from Mainland China experienced a substantial increase, while banks borrowing from Hong Kong showed a significant decrease. As at 31 December 2023, the amount of the pledged deposits significantly was increased by 134.6% to approximately HK$98.99 million (31 December 2022: approximately HK$42.20 million). This restructuring of financing is an ongoing initiative, and this initiative will continue in 2024. Following this reorganisation of financing arrangements, the cost of banks borrowing could be significantly reduced.

Strategic Utilisation of Renminbi Borrowing Funds for Internal Currency Risk Management

With the expansion of its banking facilities and the borrowing of funds from Mainland China, the strategic utilisation of Renminbi borrowing funds as an internal natural hedge demonstrates the Group's prudent approach to managing currency risk. This internalisation of the hedging process reflects the Group's forward-thinking financial strategy. The Group is not only minimising the impact of currency fluctuations, but it is also optimising its resource allocation. From a financial standpoint, this approach highlights the shrewd use of internal mechanisms in risk management, emphasising the Group's dedication to efficient capital deployment. Moreover, it showcases a proactive approach to mitigating currency exposure without incurring the costs associated with external hedging instruments. This action contributes to optimising the Group's financial position, aligning with the overarching goal of enhancing stakeholder value and financial resilience.

3. Proactive Credit Management and Provision for Impairment of Trade and Bills Receivables

Amid the economic uncertainties caused by the heightened financial stress among property developers in Mainland China and various factors, the Group has proactively tackled these challenges through strategic credit management. In response to the impact of extended payment deferrals on cash flow, the Group adjusted its credit terms to mitigate associated risks. This involved shortening the credit term for customers and engaging in extensive discussions and negotiations to maintain financial stability and ensure timely receivables, safeguarding liquidity.

Furthermore, the decision to implement a straight credit period and prepare for the potential legal proceedings demonstrates the Group's commitment to proactive risk mitigation in response to the market dynamics. This strategic approach allows the Group to navigate economic uncertainties while upholding a disciplined credit management framework. By aligning credit terms with the prevailing market conditions and preparing for the potential legal matters, the Group strengthens resilience and ensures operational continuity, positioning itself to manage fluctuations in customer payment patterns and market uncertainties effectively.

Additionally, the determination of the amount of impairment provision for trade and bills receivables to be consistent with the prudent risk management practices and accounting standards confirming the Group's commitment to effectively manage credit risks and ensure financial stability. This proactive measure further enhances the Group's ability to navigate challenges arising from deferred payments and economic uncertainties, reflecting a comprehensive approach to credit risk management. The Group's readiness for potential litigation or arbitration also highlights its comprehensive approach to managing credit risks and ensuring a stable financial position amidst economic uncertainties, reflecting a comprehensive approach to credit risk management. By adhering to consistent and prudent standards for impairment provision for trade and bills receivables, the Group reinforces the transparency and prudence of its financial reporting, instilling confidence in its ability to mitigate credit risks and maintain sustainable operations.

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.

RESULTS

The Group's loss attributable to the owners of the parent company was decreased by 31.6% to approximately HK$67.12 million for the year ended 31 December 2023, as compared to a loss of approximately HK$98.08 million for the year ended 31 December 2022. Despite a remarkable improvement in the Group's gross profit margin, which was increased by about 11.4 percentage points to 33.6% in 2023 from 22.2% in 2022, the Group incurred a loss during the year ended 31 December 2023. This loss was primarily attributable to the significant decrease of 29.8% in the sales of paint and coating products and the provision for impairment of trade and bills receivables of approximately HK$50.13 million. These results reflect the impact of challenging market conditions and evolving industry dynamics. The decrease in the sales of paint and coating products was influenced by changing industrial demands in different sectors and intensified competition, leading to a reduction in overall profitability. Furthermore, the provision for impairment of trade and bills receivables was made in accordance with prudent risk management practices and accounting standards, reflecting the Group's commitment to managing credit risks effectively.

SEGMENT INFORMATION

Business Segments

Paint and coating products

Paint operation continued to be the largest contributor to revenue, generating approximately HK$448.48 million, which accounted for 95.6% of the Group's total revenue. However, the paint and coating industry reported a decrease in overall total profit for the year 2023, attributing this to continued intense competition, price differentiation and reduced profit margins among manufacturers. Furthermore, the decreased demand from the sluggish real estate sector and changing industrial demands in different sectors resulted in a 29.8% decrease in segment revenue when compared to 2022. Amid these challenges, the industry benefitted from decreasing production costs due to low international crude oil prices, resulting in lower raw material costs for paint and coating products. By implementing business revamp measures and initiatives to combat intense competition and shifting demand challenges, the Group was able to increase its gross profit margin by 8.8 percentage points to 30.5%, up from 21.7% in 2022. Despite this improvement, the Group recorded a segment loss of approximately HK$58.15 million for the year ended 31 December 2023, representing a significant decrease of 32.7%, as compared to the segment loss of approximately HK$86.37 million for the year ended 31 December 2022. This segment loss was primarily attributable to the provision for impairment of trade and bills receivables of approximately HK$50.13 million, in accordance with HKFRS 9, considering both historical credit loss experience and forward-looking information, as well as the probability of default approach under the market conditions in the property development and construction sectors.

Property investment

The property investment segment of the Group reported a segment revenue of HK$20.61 million for the year ended 31 December 2023, which accounted for 4.4% of the total revenue of the Group. The segment profit for the year was increased by 48.9% or HK$2.09 million to approximately HK$6.36 million, in comparison to the segment profit of approximately HK$4.27 million in 2022. This significant increase in the segment profit was primarily due to that the full-year leasing of the factory in Shajing in 2023, as opposed to just one month in 2022, played a key role in driving this increase. Additionally, the absence of a subsidy receipt from the Chinese government of approximately HK$1.87 million for relocating the main factory entrances in the Shanghai Complex in 2022 further influenced the increase in segment profit. Moreover, the increase in segment profit was offset in part by an increase in property taxes related to the expanded portfolio of investment properties for the year ended 31 December 2023, as compared to the same for the year ended 31 December 2022.

Geographical Segments

The businesses of the Group are operated in Mainland China and Hong Kong. For the year ended 31 December 2023, revenue from operations in Mainland China and Hong Kong amounted to HK$410.02 million (2022: HK$574.56 million) and HK$59.07 million (2022: HK$68.49 million), respectively.

LIQUIDITY AND FINANCIAL INFORMATION

Liquidity and Indebtedness

The Group's business operation is generally financed by a combination of internal and external financial resources available to the Group. The total cash and cash equivalents amounted to HK$144.94 million as at 31 December 2023, as compared to HK$147.52 million as at 31 December 2022. Such decrease was mainly due to the depreciation of Renminbi currency and changes of working capital. The total cash and bank balances including pledged deposits, amounted to approximately HK$243.94 million as at 31 December 2023 (31 December 2022: HK$189.72 million). Bank and other borrowings amounted to approximately HK$216.72 million as at 31 December 2023 (31 December 2022: approximately HK$237.26 million). The Group's bank and other borrowings mainly bear interest at floating rates. As at 31 December 2023, the Group's total bank and other borrowings amounted to approximately HK$120.75 million (55.7%) (31 December 2022: approximately HK$237.26 million (100.0%)) and were payable within one year or on demand. An amount of the remaining balance of approximately HK$95.97 million (44.3%) (31 December 2022: nil (0.0%)) is payable in the third years.

The Group's cash and bank balances were mainly denominated in Hong Kong dollars and Renminbi, while the Group's bank and other borrowings were all denominated in Hong Kong dollars and Renminbi. The Group's results can be affected by the appreciation or depreciation between Hong Kong dollars and Renminbi. The Group currently does not adopt any hedging measures, but it will monitor 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 and other borrowings to shareholders' funds, was 48.8% as at 31 December 2023 (31 December 2022: 45.8%). Liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.30 times as at 31 December 2023 (31 December 2022: 1.12 times).

Furthermore, the amount of the Group's net current assets was increased by 59.1% to approximately HK$114.96 million as at 31 December 2023, as compared to approximately HK$72.25 million as at 31 December 2022. Such significant increase in net working capital was achieved through prudent financial and strategic planning, as outlined in the "Strategic Financial Restructuring and Optimisation" section of the business plans. The enhancement of 59.1% was primarily due to the optimised capital structure resulting from the reorganisation of short-term bank borrowings to long-term borrowings from its holding company and the fellow subsidiaries. This deliberate action has significantly improved the Group's liquidity position and financial stability compared to the previous year.

During the year ended 31 December 2023, the Group recorded a slight increase in inventory turnover days[1], from 31 days to approximately 32 days, reflecting the consistent implementation of the marked improvement in inventory management. This improvement was attributable to the Group's adoption of more effective inventory management practices, including enhanced forecasting, ordering, and tracking of inventory in the product sales forecast, as well as better production planning and control. During the year ended 31 December 2023, the trade and bills receivables turnover days[2] were decreased to 134 days, as compared to 211 days in 2022, due to the significant decrease in the sales of paint and coating products and the provision for impairment of trade and bills receivables of HK$50.13 million for the year ended 31 December 2023.

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 2022: 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 365 days (31 December 2022: 365 days).

Equity and Net Asset Value

Shareholders' funds of the Company as at 31 December 2023 amounted to approximately HK$444.47 million, as compared to approximately HK$518.07 million as at 31 December 2022. Net asset value per share as at 31 December 2023 amounted to approximately HK$0.45, as compared to approximately HK$0.52 as at 31 December 2022. 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 2023, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was approximately HK$70.80 million (31 December 2022: approximately HK$220.34 million).

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 performance bonds were secured by the pledged deposits of approximately HK$0.88 million as at 31 December 2023 (31 December 2022: approximately HK$1.80 million).

Pledge of Assets

As at 31 December 2023, certain property, plant and equipment, right-of-use assets and cash deposits with an aggregate net book value of approximately HK$333.09 million, as compared to approximately HK$207.24 million as at 31 December 2022, were pledged to financial institutions as collaterals for bills payables, bank borrowings, performance bonds and lease liabilities. The significant increase in pledged assets was a transitional event resulting from the Strategic Financial Restructuring and Optimisation.

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 2023. 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 2023, the Group invested a total sum of HK$3.99 million in the plant and equipment. These investments were recorded in the consolidated financial statements as the property, plant and equipment.

During the year ended 31 December 2022, the Group invested a total sum of HK$21.74 million in the plant and equipment, as well as the new Research and Development Centre. These investments were recorded in the consolidated financial statements as the property, plant and equipment and the right-of-use asset.

HUMAN RESOURCES

As at 31 December 2023, the Group had 495 employees, representing a significant decrease from the figure of 583 as at 31 December 2022. The staff costs for the year ended 31 December 2023 amounted to approximately HK$95.81 million, excluding directors' emoluments and including equity-settled share-based payments of approximately HK$1.05 million. This represents a decrease from the staff costs of approximately HK$126.33 million and a reduction in equity-settled share-based payments of approximately HK$2.45 million when compared to the year ended 31 December 2022.

The Group offers comprehensive and competitive staff remuneration and benefits that are based on individual performance. Trainings are 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 trainings, especially regarding 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 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 aging 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 Risk

Market risk for the Group includes a loss of market share to competitors. Hong Kong and Mainland China, the core markets in which the Group operates, are becoming increasingly competitive. Failing to consider changes in Hong Kong and Mainland China could lead to a loss of business to competitors, which would adversely affect the Group's financial position. As part of its efforts to best protect its business, the Group has specialised sales and marketing teams in its regions, along with competitive pricing policies and high-quality green and safe paints and coating products.

Operational Risk

Operational risk occurs when internal processes, people and systems fail, or due to external events, which resulted in a loss of business. Every division and department in the Group is responsible for managing operational risks. There are sets of standard operating procedures, safety standards, limits of authority and reporting framework that guide key functions within the Group. As part of the management's risk management process, key operational exposures will be identified and assessed on a regular basis so that appropriate risk reduction steps can be taken.

ENVIRONMENTAL POLICIES AND PERFORMANCE

During the year ended 31 December 2023, the Group has carried out the following environmental works for the paint 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 ended 31 December 2023, as far as the Group is aware of, 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 2023.

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

There was no other significant investment acquired, nor was there any other material acquisitions or disposals of subsidiaries during the year ended 31 December 2023. 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 2023.

SCOPE OF WORK 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 2023 as set out in the preliminary announcement have been agreed by EY, to the amounts 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 and consequently no opinion or assurance conclusion 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 2023, the Company has applied the principles and complied with the code provisions as set out in the Corporate Governance Code as contained in Part 2 of Appendix 14 (which has been reorganised as Appendix C1 with effect from 31 December 2023) (the "CG Code") to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the following deviation:

The code provision C.2.1 of the CG Code stipulates that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Since 1 April 2023, Mr. Tsui Ho Chuen, Philip has been taking the dual roles of the chairman of the Board and the managing director of the Company. After evaluation of the current situation of the Company and taking into account of the experience and past performance of Mr. Tsui Ho Chuen, Philip, the Board is of the opinion that it is appropriate at the present stage for Mr. Tsui Ho Chuen, Philip to hold both positions as the chairman of the Board and the managing director of Company as it helps to maintain the continuity of the policies and the stability of the operations of the Company, and this structure can ensure the Company has consistent leadership. In addition, under the supervision by the Board which consists of three executive Directors, one non-executive Director and three independent non-executive Directors, the interests of the shareholders of the Company will be adequately and fairly represented. Also, as all major decisions are made in consultation with and approved by the members of the Board, the Board believes that this arrangement will not have negative influence on the balance of power and authorisation between the Board and the management of the Company.

The Board will regularly review the effectiveness of this arrangement to ensure that it is appropriate to the circumstances of the Company. The Board will review and consider splitting the roles of the chairman of the Board and the managing director of the Company at a time when the Group can identify a suitable candidate with capable leadership, knowledge and relevant skills and experience for the position. Owing to the business nature and scope of the Group as a whole, such appropriate candidate shall have profound understanding and experience on the business of the Group and therefore there is no definite timetable for such appointment.

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 set out in the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 (which has been reorganised as Appendix C3 with effect from 31 December 2023) to the Listing Rules (the "Model Code"). After specific enquiry by the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and the Company's own code during the year ended 31 December 2023.

On behalf of the Board
CPM Group Limited
Tsui Ho Chuen, Philip
Chairman and Managing Director

Hong Kong, 27 March 2024

As at the date of this announcement, the Board comprises Mr. Tsui Ho Chuen, Philip, Mr. Li Guangzhong and Mr. Mak Chi Wah as executive Directors; Mr. Chong Chi Kwan as non-executive Director; and Mr. Chua Joo Bin, Mr. Xia Jun and Ms. Meng Jinxia as independent non-executive Directors.