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 2024

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2024	2023	Change
Results	**HK$'000**	HK$'000	%
Revenue	**321,352**	469,091	-31.5
Gross profit	**129,318**	157,543	-17.9
Gross profit margin	**40.2%**	33.6%	19.6
Loss attributable to shareholders of the Company	**(47,915)**	(67,115)	-28.6
Loss per share (HK cents) Basic and diluted	**(4.79)**	(6.71)	-28.6

	As at 31 December 2024	As at 31 December 2023	Change
Financial Position	**HK$'000**	HK$'000	%
Cash and cash equivalents and pledged deposits	**191,459**	243,937	-21.5
Bank and other borrowings	**195,972**	216,715	-9.6
Gearing ratio	**52.0%**	48.8%	6.6
Net asset value per share (HK$)	**0.38**	0.45	-15.6

The board (the "Board") of directors (the "Directors") of CPM Group Limited (the "Company") announces the consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2024 together with comparative amounts for the corresponding year in 2023 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2024

	Notes	**2024** **HK$'000**	2023 HK$'000
REVENUE	4	**321,352**	469,091
Cost of sales		**(192,034)**	(311,548)
Gross profit		**129,318**	157,543
Other income and gains, net	4	**7,534**	9,622
Selling and distribution expenses		**(50,885)**	(62,286)
Administrative expenses		**(79,489)**	(91,136)
Other expenses, net		**(44,887)**	(69,960)
Finance costs	5	**(11,176)**	(13,242)
LOSS BEFORE TAX	6	**(49,585)**	(69,459)
Income tax credit	7	**1,601**	2,482
LOSS FOR THE YEAR		**(47,984)**	(66,977)
ATTRIBUTABLE TO:			
Owners of the parent		**(47,915)**	(67,115)
Non-controlling interest		**(69)**	138
		(47,984)	(66,977)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	**HK (4.79) cents**	HK (6.71) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2024

	2024	2023
	HK$'000	HK$'000
LOSS FOR THE YEAR	**(47,984)**	(66,977)
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	**(20,018)**	(23,182)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Gain on property revaluation	**–**	21,273
Income tax effect	**–**	(5,101)
	–	16,172
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**–**	16,172
OTHER COMPREHENSIVE LOSS FOR THE YEAR	**(20,018)**	(7,010)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(68,002)**	(73,987)
ATTRIBUTABLE TO:		
Owners of the parent	**(67,802)**	(75,283)
Non-controlling interest	**(200)**	1,296
	(68,002)	(73,987)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

	Notes	**2024** **HK$'000**	2023 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**90,786**	110,000
Investment properties	11	**295,283**	309,087
Right-of-use assets		**29,556**	34,593
Equity investment designated at fair value through other comprehensive income		**300**	300
Deposits for purchases of property, plant and equipment		**3,971**	4,185
Deposits and prepayments		**796**	764
Deferred tax assets		**17,991**	17,502
Total non-current assets		**438,683**	476,431
CURRENT ASSETS			
Inventories		**18,664**	27,353
Trade and bills receivables	12	**103,628**	171,852
Prepayments, deposits and other receivables		**51,562**	53,286
Pledged deposits		**22,207**	98,994
Cash and cash equivalents		**169,252**	144,943
Total current assets		**365,313**	496,428
CURRENT LIABILITIES			
Trade and bills payables	13	**125,437**	195,523
Other payables and accruals		**44,715**	53,502
Interest-bearing bank borrowings		**88,075**	120,745
Lease liabilities		**3,264**	2,646
Tax payable		**8,768**	9,054
Total current liabilities		**270,259**	381,470
NET CURRENT ASSETS		**95,054**	114,958
TOTAL ASSETS LESS CURRENT LIABILITIES		**533,737**	591,389

	2024	2023
	HK$'000	HK$'000
NON-CURRENT LIABILITIES		
Loans from the Parent Group*	**107,897**	95,970
Lease liabilities	**2,850**	3,630
Deferred tax liabilities	**37,855**	39,661
Deferred income	**52**	334
Deposit received	**4,020**	3,154
Total non-current liabilities	**152,674**	142,749
Net assets	**381,063**	448,640
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**100,000**	100,000
Reserves	**277,088**	344,465
	377,088	444,465
Non-controlling interest	**3,975**	4,175
Total equity	**381,063**	448,640

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

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 HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and 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 revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 16	*Lease Liability in a Sales and Leaseback*
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current* (the "2020 Amendments")
Amendments to HKAS 1	*Non-current Liabilities with Covenants* (the "2022 Amendments")
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements*

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

(a) Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Since the Group has no sale and leaseback transactions with variable lease payments that do not depend on an index or a rate occurring from the date of initial application of HKFRS 16, the amendments did not have any impact on the financial position or performance of the Group.

(b) The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

    The Group has reassessed the terms and conditions of its liabilities as at 1 January 2023 and 2024 and concluded that the classification of its liabilities as current or non-current remained unchanged upon initial application of the amendments. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of finance statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. As the Group does not have supplier finance arrangements, the amendments did not have any impact on the Group's financial statements.

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 commercial and 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 2024	**Paint products HK$'000**	**Property investment HK$'000**	**Total HK$'000**
Segment revenue			
Sales to external customers	**298,341**	**23,011**	**321,352**
Other revenue and gains, net	**5,400**	**–**	**5,400**
Total	**303,741**	**23,011**	**326,752**
Segment results	**(47,788)**	**12,090**	**(35,698)**
Reconciliation:			
Interest income			**2,134**
Finance costs			**(11,176)**
Corporate and other unallocated expenses			**(4,845)**
Loss before tax			**(49,585)**

Year ended 31 December 2024	Paint products HK$'000	Property investment HK$'000	Total HK$'000
Segment assets	**482,223**	**308,391**	**790,614**
Reconciliation:			
Corporate and other unallocated assets			**13,382**
Total assets			**803,996**
Segment liabilities	**381,312**	**39,477**	**420,789**
Reconciliation:			
Corporate and other unallocated liabilities			**2,144**
Total liabilities			**422,933**
Other segment information			
Depreciation on property, plant and equipment	**12,855**	**–**	**12,855**
Depreciation on right-of-use assets	**4,616**	**–**	**4,616**
Capital expenditure*	**735**	**–**	**735***
Fair value losses on investment properties, net	**–**	**7,978**	**7,978**
Provision for impairment of trade and bills receivables, net	**24,186**	**–**	**24,186**
Provision for impairment of right-of-use assets	**2,838**	**–**	**2,838**
Provision of inventories to net realisable value, net	**290**	**–**	**290**
Gain on disposal of items of property, plant and equipment, net	**(84)**	**–**	**(84)**
Write-off of items of property, plant and equipment	**16**	**–**	**16**

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

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
Total	456,164	20,616	476,780
Segment results	(58,152)	6,355	(51,797)
Reconciliation:			
Interest income			1,933
Finance costs			(13,242)
Corporate and other unallocated expenses			(6,353)
Loss before tax			(69,459)
Segment assets	639,424	320,731	960,155
Reconciliation:			
Corporate and other unallocated assets			12,704
Total assets			972,859
Segment liabilities	482,024	40,322	522,346
Reconciliation:			
Corporate and other unallocated liabilities			1,873
Total liabilities			524,219

Year ended 31 December 2023	Paint products HK$'000	Property investment HK$'000	Total HK$'000
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 losses 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)
Gain on disposal of items of property, plant and equipment, net	(553)	–	(553)
Write-off of items of property, plant and equipment	54	–	54

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

Geographical information

(a) Revenue from external customers

	2024 HK$'000	2023 HK$'000
Hong Kong	**57,201**	59,073
Mainland China	**264,151**	410,018
	321,352	469,091

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

(b) Non-current assets

	2024 HK$'000	2023 HK$'000
Hong Kong	**855**	1,587
Mainland China	**419,537**	457,042
	420,392	458,629

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 2024 and 2023, 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:

	2024	2023
	HK$'000	HK$'000
Revenue from contracts with customers		
Sale of paint products	**298,341**	448,475
Revenue from other sources		
Gross rental income from investment properties	**23,011**	20,616
	321,352	469,091

Disaggregated revenue information

	2024	2023
	HK$'000	HK$'000
Type of paint and coating products sold		
Industrial paint and coating products	**151,138**	172,863
Architectural paint and coating products	**69,933**	178,225
General paint and coating and ancillary products	**77,270**	97,387
	298,341	448,475
Timing of revenue recognition		
Goods transferred at a point in time	**298,341**	448,475

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

	2024	2023
	HK$'000	HK$'000
Other income and gains, net		
Bank interest income	**2,134**	1,933
Foreign exchange difference, net	**844**	215
Government grants*	**438**	836
Government subsidies#	**1,601**	4,077
Gain on disposal of items of property, plant and equipment, net	**84**	553
Recognition of deferred income	**278**	284
Others	**2,155**	1,724
	7,534	9,622

* 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 2024, the PRC tax authority granted to the Group an Advanced Manufacturing Tax Credit Initiative amounting to HK$1,601,000 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 2023, the amount was primarily attributed from that the PRC government granted subsidy of HK$2,399,000 for the removal of solvent production lines and solvent storage tanks in the production plant in Hubei, Mainland China (the "Hubei Production Plant"). In addition, the PRC 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 were no unfulfilled conditions or contingencies relating to these government subsidies.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	2024	2023
	HK$'000	HK$'000
Interest on bank loans and other borrowings	**10,841**	12,838
Interest expense on lease liabilities	**335**	404
	11,176	13,242

6. LOSS BEFORE TAX

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

	2024	2023
	HK$'000	HK$'000
Cost of inventories sold	**192,034**	311,548
Depreciation of property, plant and equipment	**12,855**	17,881
Depreciation of right-of-use assets	**4,616**	5,341
Equity-settled share option expenses	**425**	1,682
Fair value losses on investment properties, net*	**7,978**	11,482
Foreign exchange differences, net*	**(844)**	(215)
Gain on disposal of items of property, plant and equipment, net*	**(84)**	(553)
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*	**24,186**	50,128
Reversal of provision for impairment of property, plant and equipment*	**–**	(927)
Provision for/(reversal of provision for) impairment of right-of-use assets*	**2,838**	(3,710)
Provision for/(reversal of provision for) inventories to net realisable value, net@	**290**	(36)
Staff termination cost*	**1,324**	1,226
Write-off of items of property, plant and equipment*	**16**	54

* 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 (2023: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

All subsidiaries of the Group established in Mainland China are subject to the PRC corporate income tax at a standard rate of 25% (2023: 25%) during the year, except for the subsidiaries of the Group which qualified as a PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (2023: 15%) had been applied during the year.

	2024	2023
	HK$'000	HK$'000
Current – Elsewhere		
Charge for the year	**8**	–
Under provision in prior year	**2**	1,304
Deferred	**(1,611)**	(3,786)
Total tax credit for the year	**(1,601)**	(2,482)

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$47,915,000 (2023: HK$67,115,000) and the weighted average number of ordinary shares of 1,000,000,000 (2023: 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 2024 and 2023, 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 2024 (2023: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2024, the Group acquired items of property, plant and equipment at costs of HK$735,000 (31 December 2023: HK$3,989,000).

Items of property, plant and equipment with an aggregate net book value of HK$3 (31 December 2023: HK$864,000) were disposed of by the Group for the year ended 31 December 2024.

11. INVESTMENT PROPERTIES

	2024	2023
	HK$'000	HK$'000
Carrying amount at 1 January	**309,087**	240,941
Fair value losses, net	**(7,978)**	(11,482)
Transfer from owner-occupied properties	**3,959**	45,047
Transfer from right-of-use assets	**–**	43,540
Exchange realignment	**(9,785)**	(8,959)
Carrying amount at 31 December	**295,283**	309,087

The investment properties of the Group were revalued on 31 December 2024 based on the valuations performed by BMI Appraisals Limited, an independent professional qualified valuer, at HK$295,283,000 (31 December 2023: HK$309,087,000). Fair values of the investment properties of the Group are generally derived by using the income capitalisation method 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:

	2024	2023
	HK$'000	HK$'000
Within three months	**55,670**	63,946
Over three months and within six months	**7,511**	21,061
Over six months	**40,447**	86,845
	103,628	171,852

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:

	2024	2023
	HK$'000	HK$'000
Within three months	**49,975**	71,790
Over three months and within six months	**34,389**	62,130
Over six months	**41,073**	61,603
	125,437	195,523

The trade and bills payables are unsecured, non-interest-bearing and are normally settled within two months. As at 31 December 2024, the bills payable with an aggregate carrying amount of HK$69,483,000 (31 December 2023: HK$115,694,000) were secured by time deposits of HK$21,570,000 (31 December 2023: HK$98,117,000).

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 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 vested on 14 June 2024, 10% of the share options shall vest on 14 June 2025 and 10% of the share options shall vest on 14 June 2026. These share options are exercisable at HK$0.335 per share and must be exercised within 5 years from the date of grant, and if not so exercised, the share options shall lapse.

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

	2024		2023	
	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**	0.335	80,000,000
Lapsed during the year	**0.335**	**(10,000,000)**		–
At 31 December	**0.335**	**70,000,000**	0.335	80,000,000
Vested and exercisable at 31 December	**0.335**	**56,000,000**	0.335	56,000,000

As one of the employees resigned during the year ended 31 December 2024, all share options granted to that employee under the Scheme lapsed on the date of cessation of employment. Save as disclosed above, none of the other share options granted under the Scheme were exercised, cancelled or lapsed during the year ended 31 December 2024.

In addition, none of the share options granted under the Scheme were exercised, cancelled or lapsed during the year ended 31 December 2023.

No share options were granted under the Scheme during the year ended 31 December 2024 and 2023. The share option expenses of approximately HK$425,000 was recognised during the year ended 31 December 2024 (31 December 2023: HK$1,682,000).

DIVIDEND

The Directors have resolved not to declare a final dividend for the year ended 31 December 2024 (2023: 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 Monday, 2 June 2025 to Thursday, 5 June 2025, 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 Friday, 30 May 2025.

CHAIRMAN'S STATEMENT

OVERVIEW

In recent years, the global economy faced notable challenges resulting from regional uncertainties and persistent inflation. The rising energy costs, along with the increased market volatility led by geopolitical tensions have continuously disrupted trade flows and supply chains, and further elevated the inflationary pressures. However, the inflation showed signs of moderation in the latter half of 2024. In response, several monetary authorities started easing their monetary policies by implementing interest rate cuts to reduce the cost of borrowing so as to increase investment and boost the economic activities amid slowing economic growth. According to the data released by the International Monetary Fund, global gross domestic product ("GDP") grew by approximately 3.2% in 2024, whereas Mainland China achieved 5.0% GDP expansion, which surpassed the global average GDP growth. The positive GDP expansion in Mainland China was stemmed from the introduction of a series of stimulus measures and a stronger-than-anticipated economic recovery in the fourth-quarter of 2024, despite the challenges such as a declining population numbers and soft consumer demand. In general, economic resilience in Mainland China was sector-based. The export sector still maintained a robust performance whilst the domestic consumption remained a weak spot. According to the data released by the National Bureau of Statistics of China (the "NBSC"), the percentage change in contributions to GDP growth from consumption expenditures, net exports, and capital investments shifted from 4.291%, -0.594%, and 1.504% in 2023 to 2.225%, 1.515%, and 1.260% in 2024, of which reflecting a changing economic landscape.

Due to economic stagnation in 2024, the Group unavoidably encountered a year fraught with significant challenges and difficulties. While there were fleeting moments of improvement in the purchasing managers' index ("PMI") at various points throughout the year, the overarching trend was one of marked economic contraction. This contraction was a pronounced impact on the industrial sector, as evidenced by a persistently low producer price index ("PPI"), which remained below 100 for the entire year. The PMI data further underscored this trend, signalling ongoing reductions in industrial activity. A key contributor to these low PPI levels was the sustained decline in raw material prices in Mainland China, rooted in diminishing consumer demand. This situation exacerbated by a considerable portion of household wealth being tied to real estate, which faced the pressures of falling property values. In response to the challenging market dynamics and vigorous price competition, the Group undertook strategic adjustments in pricing and enhanced purchase incentives aimed at stimulating sales. However, despite these proactive measures, the difficult macroeconomic environment resulted in a substantial decline in the Group's sales of paint and coating products in Mainland China, which significantly decreased by 38.1% for the year ended 31 December 2024, as compared to 2023.

Furthermore, the PMI construction sub-index in Mainland China reflected economic challenges, showing a declining trend and recording a score below 50 on one occasion, which indicated contraction. The declining demand in the paint and coating industry was mainly due to slow construction activity, excess inventory and challenging market conditions. Consequently, proactive strategies and optimising resources management were crucial when navigating the challenging market conditions arising from the reducing consumer spending, economic uncertainties and supply chain disruption. In 2024, over 2,400 construction companies underwent bankruptcy and reorganisation throughout Mainland China, including four leading enterprises in the construction industry. Correspondingly, in 2024, the real estate industry recorded a negative growth rate of 1.8%, while the building and construction industry sector recorded a growth rate of 3.8%. Notably, the accumulated construction area of construction-in-progress in Mainland China's real estate industry was also decreased by 12.5% in 2024, as compared to the decrease of 7.4% in 2023. The accumulated construction area of new projects was decreased by 22.5% in 2024, as compared to the decrease of 20.9% in 2023. The accumulated completion area decreased by 26.1% in 2024, as compared to the increase of 15.8% in 2023. In addition, the market experienced intense competition, wherein other paint and coatings manufacturers were keen to liquidate their excess finished goods held in inventory. As evidenced by statistics from the China National Coatings Industry Association, the total production output of the paint and coatings industry in Mainland China in 2024 amounted to 35.34 million tonnes, which represented a decrease of 1.6% compared to 2023. In contrast, the total revenue from paint and coatings manufacturers increased by 1.6%, reaching RMB408.90 billion compared to 2023. As a result, the Group's total sales of paint and coating products to customers, specifically construction and renovation contractors as well as wholesale and retail distributors in Mainland China, significantly decreased by approximately 45.5%, from HK$282.69 million for the year ended 31 December 2023 to HK$154.01 million for the year ended 31 December 2024.

Throughout the year, the manufacturing sector in Mainland China faced a challenging economic environment. The order on-hand index associated to the PMI revealed ongoing fluctuations and signs of contraction, highlighting a cautious market marked by reduced demand. This situation underscored the uncertainties confronting manufacturers, leading to lower order volumes across the industry. Additionally, the PMI inventories sub-index consistently indicated contraction, reflecting a measured approach adopted by both manufacturers and consumers. This atmosphere of uncertainty impacted numerous sectors, including the paint industry, necessitating adjustments in response to shifting consumer preferences and market conditions. Consequently, the Group's sales of paint and coating products to industrial manufacturers in Mainland China significantly decreased by approximately 18.4%, from HK$106.71 million for the year ended 31 December 2023 to HK$87.13 million for the year ended 31 December 2024.

Upon review, it is crucial to consider the economic and industry conditions reflected in the key raw materials index, which exhibited significant fluctuations, shifting between periods of opportunity and substantial challenges, especially during the latter half of 2024. This volatility impacted various sectors, including the paint industry, necessitating adjustments in operations and supply chains across the board. In addressing the dual challenges posed by mismatched supply chain dynamics, where excess raw materials coexisted with insufficient demand, and conversely, strong demand coincided with raw material shortages, the Group implemented effective business revamp measures and initiatives. The ongoing conversion of underutilised production facilities and office premises in Mainland China into investment properties was a deliberate strategy aimed at reducing manufacturing costs and administrative expenses. This proactive approach resulted in a noteworthy increase in the Group's gross profit margin for paint products, which increased by approximately 5.1 percentage points, from 30.5% for the year ended 31 December 2023 to 35.6% for the year ended 31 December 2024. Furthermore, the Group achieved a substantial 12.7% reduction in administrative expenses, which totalled HK$79.49 million for the year ended 31 December 2024, compared to HK$91.14 million for the year ended 31 December 2023.

To optimise the Group's asset allocation and enhance operating cash flows, notable progress was achieved for the year ended 31 December 2024. Rental income from investment properties rose by 11.6%, reaching HK$23.01 million, as compared with HK$20.61 million for the year ended 31 December 2023. However, as at 31 December 2024, the value of the investment properties experienced a decline of 4.5%, totalling HK$295.28 million, down from HK$309.09 million as at 31 December 2023. This reduction was primarily influenced by the significant depreciation of the Renminbi, contributing approximately 70.9% to the overall decrease. Despite this fluctuation, the intrinsic value of the investment properties remained robust due to their strategic locations with excellent transport links and proximity to industrial zones. In response to these market dynamics, a new business segment was established in 2022, dedicated to the development and management of investment properties. This initiative not only reflected a commitment to adapting our strategic approach but also underscored the dedication and commitment to delivering greater transparency and sustained value creation for the shareholders of the Company.

RESULTS

In light of the challenging market conditions, the Group recorded a notable decline in revenue of 31.5% for the year ended 31 December 2024. Nevertheless, the Group's loss for the year ended 31 December 2024 reduced by 28.4%, amounting to HK$47.98 million, as compared to HK$66.98 million in 2023.

It is encouraging that the profitability of the Group exhibited a significant improvement, with the gross profit margin rising by 6.6 percentage points, from 33.6% in 2023 to 40.2% in 2024. This improvement was attributed to the successful implementation of strategic business revitalisation measures and initiatives. Following the integration of underutilised production facilities in Mainland China, the Group achieved heightened profitability through substantial cost savings, leading to a 12.7% reduction in administrative expenses, which fell to HK$79.49 million from HK$91.14 million in the last year.

Nonetheless, it is important to highlight that the property market in Mainland China remained subdued throughout 2024 due to a prolonged downturn. This persistent stagnation significantly impacted the operating cash flows of developers in the construction industry, as well as property and infrastructure projects in Mainland China. Consequently, these adverse market conditions affected the valuation of investment properties in Mainland China. Furthermore, the economic climate necessitated a thorough impairment assessment of trade and bills receivables from the clients of the Group involved in the construction sector, as well as in property and infrastructure projects. Ultimately, these overarching circumstances influenced the valuation of investment properties, with significant implications for the Group's financial performance.

Furthermore, as at 31 December 2024, the Group reported a decline of 15.1% in net assets, as compared to a decrease of 13.9% reported as at 31 December 2023. This adverse outcome was attributable to several non-cash factors, including (i) a provision for the impairment of trade and bills receivables of approximately HK$24.19 million; (ii) the net fair value losses on investment properties of approximately HK$7.98 million; (iii) an impairment of right-of-use assets approximately HK$2.84 million; and (iv) an exchange difference of approximately HK$20.02 million, which was linked to a 3.2% depreciation of the Renminbi between the two financial year-end dates. It is noteworthy that the provision for the impairment of trade and bills receivables, amounting to HK$24.19 million resulted in a significant reduction of 17.3% in the Group's net working capital (net current assets) as at 31 December 2024, compared to 2023. Nevertheless, due to enhanced cash flow management and operational efficiency, this arrangement had a positive effect on the Group's liquidity position and overall financial stability in 2024. Cash and cash equivalents increased significantly by HK$24.31 million to HK$169.25 million as at 31 December 2024, as compared to HK$144.94 million as at 31 December 2023. Furthermore, the short-term interest-bearing bank borrowings were decreased by HK$32.68 million to HK$88.07 million as at 31 December 2024, as compared with HK$120.75 million as at 31 December 2023.

The enhancement of the Group's gross profit margin, liquidity and financial stability signified promising strides toward profitability and a robust foundation. Through continuous efforts to optimise operations, the Group effectively lowered costs and expenses and boosted productivity. In an ever-changing business environment, it is crucial for the Group to embrace innovation by leveraging technology and data analytics for more accurate forecasting and decision-making. A proactive approach in monitoring financial performance and swiftly addressing inefficiencies or potential challenges will ensure sustainable growth and competitive advantage.

BUSINESS OUTLOOK

In 2025, manufacturers in Mainland China, which engaged in the production of goods for global markets, are navigating significant global transformations driven by geopolitical challenges. These issues critically influence strategic and operational decisions, presenting concrete obstacles that require adaptive strategies for sustained growth and resilience. In response, the Chinese government has been implementing various initiatives aimed at strengthening its domestic economy to counterbalance any potential decline in foreign demand. It is also reiterated that a steadfast commitment to promoting quality growth within the private sector. The year 2025 marks the preparatory phase for the "15th Five-Year Plan," several comprehensive policies are already in place in effect that seek to stimulate domestic demand, stabilise the real estate market, sustain the "national subsidy" for trade-in-transactions, and facilitate upgrades in older neighbourhoods. These initiatives present substantial opportunities for the growth of the paint and coating sector.

However, the Construction Industry Business Index Survey indicated that insufficient project volume in Hong Kong is likely to be the most pressing challenge anticipated in the upcoming year. Other issues included human resources, capital turnover, principal contract risks and regulatory matters. The survey highlighted a significant decline in contractors' confidence regarding both short- and medium-term prospects for the construction industry and the broader economy.

Despite these challenges, the Group is adopting a prudent approach to its business outlook, focusing on leveraging innovation and enhancing efficiency to acclimate to the evolving market landscape. By maintaining robust product quality and ensuring timely deliveries, the Group has mitigated the decline in sales, preventing further reduction, and observed improvements in profitability and operational efficiency. With financial stability reinforced, the Directors remain optimistic about the future prospects of the paint and coating industry, in alignment with governmental efforts to stimulate domestic demand and support sector growth.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2024, in order to further enhance and establish sustainable profitability while continuing to address supply chain challenges, including the volatility of raw material prices and intense competition, the Group maintained its commitment to implementing effective business revamp measures and initiatives. In 2023, the Group converted certain underutilised production plants and office premises into investment properties. This ongoing strategy would enable the Group to overcome the challenges as well as optimise asset allocation and improve its operating cash flow. In a measured strategic initiative, the Group successfully navigated existing challenges, optimised asset allocation and bolstered its operating cash flow. However, as at 31 December 2024, the total value of the Group's investment properties decreased by 4.5%, amounting to approximately HK$295.28 million from approximately HK$309.09 million as at 31 December 2023. This decline was largely attributed to a 3.2% depreciation in the Renminbi. Investment properties constituted 36.7% of the Group's total assets, furnishing a robust foundation for this 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 2024 to align it with its overall business strategy. The paint and coating business remains the largest segment of the Group while the second segment is property investment.

For the paint and coating business, the products of the Group 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 2024, the Group's total revenue amounted to approximately HK$321.35 million, which included the sales of paint and coating products of HK$298.34 million and rental income from investment properties of HK$23.01 million. The amount of the total revenue represented a significant decrease of 31.5%, as compared to the Group's total revenue of HK$469.09 million in 2023, which included sales of the paint and coating products of HK$448.48 million and rental income from investment properties of HK$20.61 million.

PAINT AND COATING PRODUCTS

For the year ended 31 December 2024, the Group's revenue from the sales of the paint and coating products amounted to approximately HK$298.34 million, representing a significant decrease of 33.5%, as compared to approximately HK$448.48 million in 2023. 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 2024 (with comparative figures for the year ended 31 December 2023):

	Year ended 31 December				
	2024		2023		% of net
	HK$'000	**%**	HK$'000	%	change
Industrial paint and coating products	**151,138**	**50.7**	172,863	38.6	(12.6)
Architectural paint and coating products	**69,933**	**23.4**	178,225	39.7	(60.8)
General paint and coating and ancillary products [(1)]	**77,270**	**25.9**	97,387	21.7	(20.7)
	298,341	**100.0**	448,475	100.0	(33.5)

(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 50.7% (2023: 38.6%), 23.4% (2023: 39.7%) and 25.9% (2023: 21.7%) of the total revenue generated from the sales of the paint and coating products in 2024, respectively. The Group continued to focus on Mainland China market which contributed to 80.8% (2023: 86.8%) of the amount of the total revenue generated from the sales of the paint and coating products in 2024.

Significant decrease in the sales to the property developers and their contractors working for private residential property projects in Mainland China

For the year ended 31 December 2024, the Group's sales to property developers and their contractors working for private residential property projects in Mainland China amounted to HK$17.96 million, representing a decrease of 78.3%, as compared to HK$82.69 million recorded during the last year in 2023. According to the data of the NBSC, there was a substantial decline in residential property activities in the 2024: accumulated construction areas decreased by 12.5%, newly started construction areas fell by 22.5%, and completed construction areas dropped by 26.1% in comparison to the 2023.

During the year ended 31 December 2024, the Group experienced a notable downturn in sales of paint and coating products, primarily due to unfavourable conditions in private residential property sector in Mainland China. This sector was significantly affected by a pronounced decline in property prices compared to 2023. Price trends across major cities were varied, but many areas continued to suffer from a decline in property prices, which meant that the property market was persistently unstable.

In response, the Chinese government acted decisively and took measures to mitigate these challenges and revitalise property sector. They reduced interest rates for existing housing loans to ease financial burdens on property owners and home purchasing costs to boost demand. Additionally, local governments were authorised to use special bonds for acquiring unsold housing and dormant land. These strategies aimed to ease market strains and foster a more robust property market, indirectly benefiting the paint and coating industry by creating a more favourable economic environment. Following the measures taken by the Chinese government to steer the real estate market towards stability, the Group's sales in this customer segment became stable, maintaining consistent levels in the first half and the second half of 2024.

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

For the year ended 31 December 2024, the Group's sales to wholesale and retail distributors in Mainland China significantly decreased by 29.4% to approximately HK$109.28 million, as compared to HK$154.74 million for the year ended 31 December 2023. This significant decline was primarily driven by intense competition within the paint and coating industry in Mainland China.

In recent years, many paint and coating manufacturers had expanded their production capacities, resulting in increased market supply. Concurrently, the Chinese government implemented policies to curb leverage among property developers so as to mitigate financial risks and stabilise the housing market. These measures led to a sluggish real estate market, causing the property developers to slow their land acquisitions for new projects, resulting in the reduction in demand of architectural paint and coating products, of which accounted for approximately 60.0% of the industry's sales in Mainland China. Despite this decrease in demand, production capacities continued to rise, creating market oversupply. In response to the competitive pressures, some manufacturers have resorted to aggressive discounting strategies to boost sales and maintain utilisation rates of both new and existing production capacities. Additionally, many manufacturers significantly increased their promotional and advertising expenditures during the first half of 2024 to capture market share. These strategies resulted in sacrificing net profit margins in order to attract more sales.

Significant decrease in the sales to the industrial manufacturers in Mainland China

For the year ended 31 December 2024, the Group experienced a significant decline in sales to industrial manufacturers in Mainland China, which decreased by 18.4% to approximately HK$87.13 million, from HK$106.71 million for the year ended 31 December 2023. This downturn was attributed primarily to a reduction in consumer spending and the PMI below 50, indicating waning economic activity due to diminished end-user demand. Furthermore, intensified competition within the paint and coating sector, arising from manufacturers traditionally focused on architectural products, further impacted sales.

The Chinese government has been rolling out measures to stabilise the real estate market aimed at curbing excessive leverage and mitigating financial risks. Since 2020, the Chinese government had implemented policies designed to monitor and regulate loans, with a focus on reducing the elevated debt ratios of real estate enterprises. Whilst borrowing restrictions on property developers had been somewhat relaxed, overarching macroeconomic pressures and a stagnating real estate market resulted in paint and coating manufacturers diversifying their business portfolios. Consequently, these entities ventured into industrial paint and coating segments, thereby broadening their operational scope.

Furthermore, the competitive landscape intensified further with the introduction of new machinery and equipment designed to enhance productivity. This development led to increased production efficiency and production volumes, thereby intensifying competition amongst businesses in subcontracting processes, metal products, industrial machinery, and plastic toys sectors. According to data released by the NBSC, industrial capacity utilisation in the manufacturing sector stood at 75.2% in 2024, slightly reduced by 0.1%. This represents an improvement compared to 2023, where the industrial capacity utilisation was 75.3%, with a decline of 0.5%.

Geographical Analysis of Revenue

Geographically, for the year ended 31 December 2024, the Group's revenue generated from the sales in Mainland China and Hong Kong accounted for 80.8% and 19.2%, respectively, as compared to 86.8% and 13.2%, respectively for the year ended 31 December 2023. 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 76.1% of the Group's total amount of revenue for the year ended 31 December 2024, as compared to 81.4% for the year ended 31 December 2023.

Significant decrease in the sales to the property developers and their contractors working for private residential property projects in the Southern China, the Central China and the Eastern China

For the year ended 31 December 2024, the Group experienced a substantial decline in revenue from the sales to property developers and their contractors working for private residential projects in the Southern China, the Central China and the Eastern China. This downturn was primarily attributable to a weakening real estate market in Mainland China. Specifically, the revenue from the Southern China, the Central China and the Eastern China decreased by 58.2% to HK$29.17 million, 63.5% to HK$9.23 million and 83.5% to HK$3.73 million, respectively, compared to HK$69.88 million, HK$25.27 million and HK$22.57 million, respectively, for the year ended 31 December 2023. These declines cumulatively represented approximately 90.8% of the total reduction in sales to construction and renovation contractors for property infrastructure projects within Mainland China.

The contraction in sales reflected a broader trend in the regional real estate sector, significantly affected by decreased construction activities. According to the data of the NBSC, the newly started construction area for real estate projects in the Southern China, the Central China, and the Eastern China in 2024 dropped precipitously by 2.0%, 2.4%, and 11.4%, respectively, as compared to the last year.

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

For the year ended 31 December 2024, the Group faced a significant downturn in sales of paint and coating products to distributors in the Southern China, recording a sharp decline of 40.3%, or HK$44.80 million. This downturn followed a previous decline of 16.6% in 2023, equating to HK$22.13 million, highlighting a continuing negative trend. The situation was further compounded by economic signals from Mainland China. In 2024, the PMI construction sub-index showed a declining trend and recorded a score below 50 on one occasion. This contraction indicated substantial economic challenges in the paint and coating industry, pointing to decreased construction activity, overstocked inventories and adverse market conditions.

As mentioned, in 2024, the real estate sector exhibited a contraction, showing a decline in growth, in contrast to the moderate expansion experienced by the building and construction sector. These changes have significantly affected the Group's revenue from sales to distributors in Mainland China, resulting in a notable decrease for the year ended 31 December 2024.

Despite these challenges, it is noteworthy that the Group has achieved a 10.0% increase in sales of paint and coating products to Distributors in the Eastern China for the year ended 31 December 2024. The Group remains committed to exploring expansion opportunities in other regions where demand may exist, leveraging adaptability to sustain growth and maximise revenue potential.

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

For the year ended 31 December 2024, the Group recorded a notable reduction in revenue from the sales of paint and coating products to industrial manufacturers in the Southern China, resulting a decline of HK$18.90 million, or 26.5%. This represents an improvement compared to the last year's decrease of 35.9%. The manufacturing sector within Mainland China navigated a challenging economic landscape throughout the year. The PMI highlighted persistent fluctuations and contraction, underscoring a market atmosphere characterised by reduced demand. Such uncertainties compelled manufacturers to scale back on orders, resonating throughout the industry. The PMI inventories sub-index further indicated consistent contraction, reflective of a cautious stance amongst both manufacturers and consumers. This climate of uncertainty extended to various sectors, including the paint industry, necessitating careful strategic planning and adaptation to market conditions.

As a result, the Group experienced a significant decline in sales of paint and coating products to industrial manufacturers in Mainland China, decreasing by approximately 18.4%, from HK$106.71 million in 2023 to HK$87.13 million in 2024. This combination of factors collectively influenced the Group's total revenue from sales to industrial manufacturers in Mainland China, leading to a reduction of HK$19.58 million or 18.4%, for the year ended 31 December 2024.

Despite these challenges, the Group recorded a 5.5% increase in sales of paint and coating products to industrial manufacturers in the Central China for 2024. This growth underscored the importance of regional diversification. The Group planned to explore new opportunities in other regions to sustain growth and maximise revenue. This strategic focus mitigated risks and captured emerging opportunities in diverse markets.

Significant decrease in the sales of paint and coating products to renovation contractors in Hong Kong

For the year ended 31 December 2024, the Group observed a significant reduction in sales of paint and coating products to renovation contractors in Hong Kong, amounting to a 13.4% decrease. This decline contrasted with the increase of 5.0% last year. Amidst this downturn, public information revealed a 22.3% increase in registered residential property transactions as compared to last year, which was viewed positively. However, the unemployment rates within specific sectors presented challenges. Unemployment in the building decoration, repair, and maintenance sectors dropped slightly to 5.8% in 2024 from 6.0% in 2023. These figures were higher than the overall unemployment rates, which stood at the range 2.9% in 2023 and 3.0% in December 2024, highlighting distinctive sector dynamics amidst broader economic conditions.

Moreover, the broader economic climate presented challenges for the renovation sector overall. GDP growth had softened from 3.2% in 2023 to a projected 2.5% in 2024. Additionally, the fiscal reports indicated that the Hong Kong government faced a deficit for the 2023/2024 fiscal year, a trend that was expected to persist into 2024/2025. These economic changes likely encouraged households to practice more cautious spending, particularly regarding property decoration and renovation. Factors contributing to this shift might have included changing consumer preferences, where some residential property buyers chose to delay renovations on both new and existing homes.

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. With crude oil prices stabilising around US$75 per barrel in 2023 and 2024 after significant fluctuations in previous years, the industry achieved better profitability by leveraging consistent cost expectations. During these price changes, paint and coatings manufacturers experienced an increase in their gross profit margins due to the reduction in raw material costs. Despite occasional increases in the PMI throughout 2024, the broader economic conditions were characterised by a contraction, adversely impacting the industrial sector. This economic challenge was evident in the consistently low PPI throughout the year. The PMI highlighted this ongoing contraction, reflecting a continued decline in industrial activity. A key factor contributing to the low PPI was the ongoing reduction in raw material prices in Mainland China, driven by decreasing consumer demand.

In light of the decline in raw material prices within the Mainland China market and the shift in end users' preferences affecting the product mix, the Group implemented strategic initiatives to optimise raw material costs and diversify sourcing options. This approach resulted in a marked reduction in the raw material component of the cost of sales, decreasing to 82.5% in 2024 from 86.3% in 2023. This development reflected a deliberate effort to enhance efficiencies through strategic alliances, as described in the 2022 Annual Report. Moreover, the Group achieved a noteworthy reduction of 41.1% in overall raw material costs within the cost of sales, surpassing the 33.5% decline in sales. This underscored significant advances in cost management practices and highlighted the strategic alignment of its partnerships.

Direct and indirect labour cost

During the year ended 31 December 2024, the Group successfully reduced direct and indirect labour costs by 18.6%. While this reduction was smaller than the 33.5% decline in sales of paint and coating products, it represented a strategic and proactive approach to cost management amid challenging market conditions.

To address this discrepancy and improve labour efficiency, the Group implemented several targeted measures and initiatives. Among these was the introduction of a comprehensive cross-training program, which empowered the Group's workforce with the skills needed to perform various tasks across different functions. This strategic initiative encompassed both manufacturing and warehouse staff, allowing the Group to maintain operational flexibility without increasing headcount.

Moreover, the Group made significant advancements in optimising production lines and enhancing manufacturing processes. By doing so, we not only improved efficiency but also strengthened the Group's ability to adapt to fluctuating market demands without compromising on quality or service. These initiatives reflected the Group's commitment to operational excellence and cost-efficiency, ensuring that the Group remained well-positioned to deliver value to its shareholders even amidst challenging market conditions.

Depreciation and production overhead

For the year ended 31 December 2024, despite a 33.5% decrease in sales of paint and coating products, the Group achieved a 24.5% reduction in depreciation and production overhead costs. This aligned with the Group's ongoing strategy focusing on efficiency and budget control. Key measures included a 35.8% reduction in depreciation by converting the underutilised production plants into investment properties and a 7.9% decrease in production overhead through streamlined processes and cost-reduction initiatives.

These efforts demonstrated the Group's proactive approach in managing costs while positioning the Group for future growth, ensuring sustainable value creation for shareholders of the Group even amidst challenging market conditions.

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

As previously noted, the paint and coating industry experienced benefits from favourable trends in the PMI and PPI. Although there were occasional increases in the PMI during 2024, the overall economic conditions remained contractionary, adversely impacting the industrial sector. This was reflected in a low PPI, primarily due to reduced raw material prices in Mainland China, driven by diminished consumer demand. Consequently, the sales of paint and coating products significantly decreased by 33.5%, as compared to the year ended 31 December 2023. Despite this downturn, the Group achieved a commendable increase in the gross profit margin, rising by 5.1 percentage points to 35.6%, up from 30.5% in 2023. This improvement resulted from strategic factors, including effective business revamp measures and initiatives such as the integration of production facilities in the Southern China. The strategic timing of the integration in 2023 proved advantageous; had it been postponed until this year, adjusting fixed costs to align with the reduced sales volume could have been considerably problematic.

The necessity to highlight was evident as the 22.4% decline in gross profit did not align proportionally with the 33.5% reduction in sales of paint and coating products, as compared to the last year. The Group's gross profit from these sales decreased significantly by HK$30.62 million, as compared to 2023. The marked 33.5% sales decrease was projected to have led to an approximate gross profit decline of HK$45.84 million. Yet, an increase in the gross profit margin, amounting to approximately HK$15.22 million, effectively offset the decline. Consequently, the loss as recorded in the Paint segment for the year ended 31 December 2024 reduced by 17.8%, amounting to HK$47.79 million, as compared to HK$58.15 million for the last year ended 31 December 2023. This relative improvement in financial performance was attributed to strategic initiatives that enhanced operational efficiency and cost management.

Other Income and Gains, Net

The net amount of other income and gains for the year ended 31 December 2024 showed a significant decrease of 29.8% to HK$5.40 million, as compared to HK$7.69 million for the year ended 31 December 2023. This decrease was primarily attributable to: (i) the absence of a government subsidy amounting to HK$2.40 million for the removal of solvent production lines and solvent storage tanks in the Hubei Production Plant which received in 2023; (ii) a reduction in government grants amounting to HK$0.40 million; and (iii) a reduction in gain on net disposal of fixed assets of HK$0.47 million. These reductions were partially offset by an increase in net foreign exchange differences amounting to HK$0.63 million and an increase of HK$0.35 million in other income and gains, which included compensation receipts related to aged trade and bills receivables, as well as receipts from scrap sales.

Selling and Distribution Expenses and Administrative Expenses

For the year ended 31 December 2024, the Group's selling and distribution expenses significantly declined by 18.3%, amounting to HK$50.89 million, in contrast to HK$62.29 million for the year ended 31 December 2023. This reduction however, did not correspond with the 33.5% decrease in sales of paint and coating products, it primarily stemmed from a notable increase in legal and professional fees, amounting to HK$5.88 million, related to legal actions for the recovery of the Group's aged trade and bills receivables. The disparity suggested challenges in adjusting operating costs in line with declining revenues, highlighting areas for improving cost management. These challenges had partly been due to fixed expenses that could not be easily scaled down with falling revenues. Additionally, unexpected legal costs had temporarily inflated overall expenses. The focus on legal actions, though costing more initially, aimed to secure future cash flows. Once resolved, the emphasis likely had shifted to better synchronising expenses with sales, aiming for enhanced cost efficiency in subsequent periods.

Following the strategic integration of the underutilised production facilities in Mainland China in 2023, administrative expenses for the year ended 31 December 2024 were substantially reduced by 12.0% to approximately HK$73.88 million, as compared to approximately HK$83.91 million for the year ended 31 December 2023. Cost savings were realised from salaries and staff welfares, which amounted to HK$4.07 million, depreciation of HK$1.33 million, and share options of HK$1.26 million. Additionally, reductions were achieved in consumables and other expenses amounting to HK$3.37 million, as compared to 2023. This strategic integration enabled a sustainable reduction in operational costs, enhancing financial stability and resilience.

Other Expenses, Net

For the year ended 31 December 2024, the amount of other expenses was decreased by 38.6% to approximately HK$34.73 million, as compared to approximately HK$56.57 million in 2023, primarily due to a combination of economic factors. This reduction was mainly attributable to (i) a significant decrease in the provision for impairment of aged trade and bills receivables amounting to HK$25.94 million, which was driven by the collection of certain outstanding receivables during the year; and (ii) a notable decrease in other taxes, correlating with the 33.5% decline in sales of paint and coating products. Nonetheless, these favourable impacts were partially offset by an increase in the provision for impairment of right-of-use assets, which resulted from under-utilisation aligned with the 33.5% decline in sales of paint and coating products, subsequent to an annual review assessment. This economic adjustment reflected strategic financial management and adaptive measures required by accounting standards in response to market fluctuations and operational demands.

The Group made the provision for the impairment of trade and bills receivables in accordance with HKFRS 9, considering both historical credit loss experience and forward-looking information. In evaluating the provision for the impairment of aged trade and bills receivables in connection with property developers and contractors as of 31 December 2024, the Group engaged a professional valuer to perform the assessment. It was the considered view of the Group that an additional impairment provision, amounting to approximately HK$19.22 million was provided for these receivables, which represented approximately 79.5% of the total provision for the impairment of aged trade and bills receivables, totalling HK$24.19 million for the year ended 31 December 2024. Despite this, the Group encountered challenges due to economic uncertainty stemming from heightened financial stress among property developers in Mainland China. Despite a 17.1% decrease in the gross amount of trade and bills receivable as at 31 December 2024, an additional provision for the impairment of trade and bills receivables of HK$24.19 million was deemed necessary, resulting in a 14.9% increase in the gross provision for the impairment of trade and bills receivables to HK$139.68 million as at 31 December 2024. This underscored the marked influence of macroeconomic factors and regulatory compliance on financial assessments, thus necessitating prudent financial strategies in volatile markets.

Amidst strategic adjustment and implementation of ongoing business revamp measures and initiatives aimed at addressing market challenges, the Group successfully enhanced its financial performance by increasing its gross profit margin by 5.1 percentage points to 35.6%, up from 30.5% in 2023. Notwithstanding these gains, the Group reported a segment loss of HK$47.79 million for the year ended 31 December 2024, marking a notable reduction of 17.8% compared to the last year's segment loss of HK$58.15 million. This reduction in losses was primarily attributable to lower provision for the impairment of aged trade and bills receivables, alongside improved profit margins and cost efficiencies across major operations. Conversely, profitability was impeded by a 33.5% decrease in the sales of paint and coating products. The segment loss for 2024 was mainly influenced by a substantial provision for impairment of aged trade and bills receivables, which totalled approximately HK$24.19 million. Furthermore, the Group incurred legal and professional expenses of HK$7.03 million and the provision for impairment of right-of-use assets totalling HK$2.84 million. The decline in sales of paint and coating products adversely impacted the financial performance of the Group.

PROPERTY INVESTMENT

Within the framework of the strategy, the Group's investment properties were strategically reallocated, effectively transferring underutilised production plants and office premises. With this decision, the Group not only overcame challenges but also optimised its asset allocation and improved its operating cash flow. It was important to note the impact of macroeconomic fluctuations, principally a 3.2% depreciation in the Renminbi, which affected asset valuations as at 31 December 2024. Consequently, there was a 4.5% reduction in the valuation of the Group's investment properties, decreasing from HK$309.09 million to HK$295.28 million. Despite this decrease in value, the proportion of investment properties relative to the Group's total assets increased to 36.7%, up from 31.8% last year. This shift underscored the Group's strategic adaptation to maximise asset efficiency amidst economic variability. 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 2024 to align with its overall business strategy.

As at 31 December 2024, the Group's investment property portfolio comprised of 6 properties (31 December 2023: 6) with a total land area of 175,675.8 square meters ("sq.m.") (31 December 2023: 175,669.5 sq.m.) and a total gross floor area of 76,295.3 sq.m (31 December 2023: 76,300.4 sq.m.). The variation in the total land area and gross floor area was principally due to the renewal of property certificates for the production plant in Zhongshan (the "Zhongshan Production Plant"), necessitating a remeasurement of the gross floor area by the local governmental authority. 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 2024 amounted to approximately HK$23.01 million, marking a substantial increase from approximately HK$20.61 million in 2023. Similarly, the segment profit for the year ended 31 December 2024 amounted to HK$12.09 million, as compared to approximately HK$6.36 million for the year ended 31 December 2023. 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$2.40 million and changes in net fair value on investment properties (including loss of HK$7.98 million in 2024 and loss of approximately HK$11.48 million in 2023). Notably, the full-year leasing of the Zhongshan Production Plant, alongside the leasing of the entire production plant in Shanghai (the "Shanghai Production Plant") after the first quarter of 2024, markedly contributed to the significant increase in rental income throughout the year. This contrasts with the partial leasing arrangements in 2023, when the properties commenced the year unoccupied.

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

In 2024, the global economy faced formidable challenges, characterised by ongoing inflationary pressures and geopolitical tensions that disrupted trade flows and heightened market volatility. In Mainland China, although GDP growth reached 5%, the paint and coatings industry experienced a noticeable contraction due to subdued domestic demand, decreased consumer spending, and reduced construction activity. The PMI construction sub-index indicated continued contraction within the sector, as the real estate market confronted declining property values and an excess inventory. In response to intense competition, manufacturers employed aggressive pricing strategies to clear surplus stock, thereby exacerbating market difficulties. Amid these adverse conditions, the Group demonstrated resilience through strategic adjustments aimed at enhancing profitability. Key initiatives led to a marked improvement in gross profit margins from 33.6% to 40.2%. This successful outcome was realised by optimising raw material costs, diversifying sourcing options, and achieving a 35.8% reduction in depreciation by converting underutilised production facilities into investment properties. Moreover, production overheads were reduced by 7.9% through streamlined processes and cost-reduction measures. Administrative expenses were curtailed by 12.8% as a result of cost-saving initiatives. Despite a 31.5% decline in revenue, the Group effectively managed to reduce its loss by 28.4%, illustrating enhanced operational efficiency and a focus on liquidity. The Group's adaptability in navigating challenging economic landscapes underscored its potential for future recovery and sustainable growth.

From an alternative perspective, despite incurring a loss of approximately HK$47.98 million for the year ended 31 December 2024 (31 December 2023: loss of approximately HK$66.98 million), the Group, excluding specific costs, losses, and gains, might have generated a profit of HK$22.00 million for the year ended 31 December 2024 (31 December 2023: profit of approximately HK$29.63 million). The costs, losses, and gains that were excluded included various non-cash items like depreciation of property, plant, and equipment; depreciation of right-of-use assets; and provisions for impairment of trade and bills receivables, right-of-use assets, and property, plant and equipment. They also included share option expenses and net fair value gain or loss on investment properties. One-off expenses were comprised of staff termination costs and legal and professional fees related to the collection of trade and bills receivables. Further, finance-related elements included finance costs and net gain or loss on foreign exchange differences. The inclusion of income tax also played a role. Excluding these items showcased a significant improvement from the reported loss, underscoring the Group's commitment to revamping its business 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 – The Group's the sales of paint and coating products recorded a significant decrease of 33.5% in 2024, reflecting the challenging economic environment in the paint and coating industry. The PMI construction sub-index highlighted reduced demand, stifled construction activities, and increased economic uncertainty within Mainland China's paint and coating industry. Concurrently, 2024 witnessed a discernible decline in real estate indicators, comprising cumulative construction areas, new project initiations, and completions. Conversely, the rental income from investment properties experienced a remarkable upsurge of 11.6% in 2024. This upward trend was primarily driven by the consistent full-year leasing of the Zhongshan Production Plant and the post-first-quarter 2024 leasing of the entire Shanghai Production Plant, contrasting with the scenario in 2023, when investment properties started the year vacant and were only leased out partially.

2. Cost of raw materials – As outlined in the section headed "Cost of sales" above, the cost of sales experienced a 38.4% decrease for the year ended 31 December 2024, a more significant decrease compared to the 37.8% decrease in 2023. This decrease was primarily due to the lower costs of raw materials, driven by a general decline in raw material prices throughout the year, as indicated by average PMI values falling below 50 and the PPI levels dropping under 100. Additionally, the 18.6% decrease in direct and indirect labour costs, along with the 24.5% decrease in depreciation and production overhead, contributed to this improvement. These economic advancements resulted from effective business revamp measures and initiatives, demonstrating the Group's capability to adapt to existing market conditions and enhance operational efficiency through careful management and foresight. This inclusion underscored resilience and effectiveness in cost management despite the sales challenges.

3. Other income and gains, net – During the year ended 31 December 2024, there was a notable decrease of 21.7%, approximately HK$2.09 million, in other income and gains compared to 2023. This decline was primarily attributable to the absence of the government subsidy, totalling HK$2.40 million, which had previously been received for the removal of solvent production lines and solvent storage tanks within the production facilities of the Hubei Production Plant. This reduction was offset by various other factors.

4. Staff costs – Staff costs were decreased by approximately HK$15.72 million or 16.4% for the year ended 31 December 2024, as compared to 2023. Furthermore, as at 31 December 2024, there were 440 employees (excluding Directors), which is 11.1% lower than the 495 employees as at 31 December 2023.

5. Selling and distribution expenses – For the year ended 31 December 2024, selling and distribution expenses significantly decreased by 18.3% to approximately HK$50.89 million, as compared to approximately HK$62.29 million for the year ended 31 December 2023. The percentage of these expenses relative to the sales of paint and coating products increased adversely by 22.8%, rising to 17.1% from 13.9% for the year ended 31 December 2023. Aside from the reduction in related expenses, this decrease did not align with the 33.5% decline in sales of paint and coating products. The primary reason for this discrepancy was a notable increase in legal and professional fees, amounting to HK$5.88 million, which were incurred in connection with legal actions for the recovery of the Group's aged trade and bills receivables during the year ended 31 December 2024.

6. Other expenses, net– For the year ended 31 December 2024, the Group's other expenses significantly decreased by 35.8% to HK$44.89 million, as compared to approximately HK$69.96 million in 2023. This reduction was primarily due to the decrease in provision for the impairment of trade and bills receivables of HK$25.94 million. The decrease in the provision for impairment was partly because some outstanding receivables were successfully collected during the year. This adjustment followed prudent risk management practices and accounting standards, underlining the Group's dedication to managing credit risks and maintaining financial stability. Additionally, the change in net fair value losses on investment properties of HK$7.98 million was determined by a professional valuer, taking into account the dynamic conditions of the property market. Additionally, the Group incurred non-cash expenses totalling HK$35.00 million in 2024, contributing approximately 78.0% of total other operating expenses, compared to 84.0% in 2023. These non-cash adjustments highlighted the Group's prudent financial management approach, reinforcing its strategic focus on long-term financial health and sustainability.

7. Finance costs – For the year ended 31 December 2024, finance costs significantly decreased by 15.6% to HK$11.18 million, as compared to HK$13.24 million for the last year ended 31 December 2023. This decline was primarily attributable to a reduction in borrowings and the shift of interest-bearing bank borrowings from Hong Kong to Mainland China. Throughout the year, the average interest rates on interest-bearing bank borrowings decreased by 11.1% to 4.8%, as compared to 5.4% in 2023.

8. Renminbi exchange rate against Hong Kong dollars – The depreciation in Renminbi during the year ended 31 December 2024 had a positive financial impact on the Group's operating results.

BUSINESS OUTLOOK AND BUSINESS PLANS

BUSINESS OUTLOOK

Looking ahead to 2025, the paint and coating industry in Mainland China is expected to maintain its growth momentum, driven by various sectors such as high technologies, industrial manufacturing, construction and others, amidst the China's overall economic stability. Conversely, the prospects in Hong Kong remains challenging. The market faces constraints due to a lack of sufficient project volume and possible cash flow strains among property developers and contractors. These issues are likely to have adverse impacts on the construction industry, potentially leading to a decrease or, at best, uncertain growth in Hong Kong's paint and coating market.

Furthermore, the industry is expected to shift towards more sustainable and environmentally-friendly products, driven by the increasing 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 focused on upgrading older neighbourhoods. In Hong Kong, the government's commitment on sustainability and green initiatives create favourable landscapes for paint and coating manufacturers to offer environmentally-friendly products. This aligns with the government's plan to cultivate a green economy and invest in sustainable infrastructure.

Overall, the paint and coating industry in Mainland China seems poised for moderate growth prospects. Conversely, Hong Kong may encounter certain challenges that could constrain its growth potential. Certainly, enhancement in innovation and sustainability performance are vital for thriving amid the divergent market conditions. The strategy aligns with the Group's environmental commitments and strategically positions it to capitalise on emerging market opportunities in both regions.

BUSINESS PLANS

As one of the paint and coating manufacturers in Mainland China and Hong Kong, the Group recently encountered several substantial challenges. Since 2023, the Group launched a comprehensive initiative to restructure its business model. Following that, a partial optimisation of profitability was noted in 2024, as evidenced by improved gross profit margins. Financial stability was further strengthened due to the reduction in interest-bearing bank borrowings, thereby liquidity was enhanced as a higher liquidity ratio was observed. The Group also secured additional financial resources from several financial institutions and its parent company. Throughout 2024, the paint and coating industry faced persistent and intense competition, leading to price differentiation and further compressing profit margins for manufacturers. Economic contraction also intensified the pressure on the industrial sector, as highlighted by persistently low PMI and PPI indices throughout the year. This decline was exacerbated by diminishing raw material prices, driven by reduced consumer demand in Mainland China. The devaluation of real estate further impacted consumer wealth, leading to a decrease in purchasing power. Consequently, the Group experienced a significant 33.5% decline in sales of paint and coating products in 2024. Despite these challenges, the Group remained committed to adapting to the evolving market dynamics through ongoing strategic restructuring and financial stabilisation.

In response to the substantial 33.5% decline in sales recorded in 2024, the Group strategically prioritises the stabilisation the volume and value of sales within its paint and coating product lines in 2025. This stabilisation holds paramount importance prior to embarking upon growth enhancements. Concurrently, the Group is working to optimise its financing arrangements by reducing borrowing costs and improving the efficiency of recovery from trade and bills receivables. Since 2023, the Group has been implementing a series of business initiatives to achieve these objectives. These initiatives include (i) exploring diversified financing facilities to ensure sustainable liquidity; (ii) negotiating terms to minimise interest burdens; and (iii) deploying refined credit management strategies to expedite the turnover of trade and bills receivables. Each initiative is designed to fortify financial resilience and position the Group for enduring success amidst evolving market conditions. To achieve these objectives, the following business initiatives are currently being implemented:

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

Given the challenging economic landscape, the Group encountered notable hurdles when leveraging strategic partnerships for product expansion in 2024. The collaborative efforts initiated in 2022 aimed at diversifying the product portfolio through innovative formulas and patent-sharing successfully expanded market reach in 2023. However, the prevailing economic conditions significantly hampered these initiatives in 2024.

Despite the introduction of modified products and offering flexible pricing to accommodate diverse customer needs, a pronounced contraction in the industrial sector led to a 38.1% decline in the Group's sales of paint and coating products in Mainland China. The downturn was driven by a persistently low PPI and a sustained decline in raw material prices, exacerbated by current consumer demand trends. Furthermore, with a considerable portion of household wealth tied to depreciating real estate values, consumer spending remained subdued.

In response, the Group implemented strategic adjustments, enhancing purchase incentives and recalibrating pricing strategies. These measures, however, had limited success in reversing the sales decline. Overall, while the foundational strategy aimed to enhance customer retention and satisfaction, the adverse economic environment necessitated a re-evaluation of tactics to sustain growth and counteract declining sales performance.

2. **Strategic Financial Restructuring and Optimisation**

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

In 2023, the Group entered into 3-year loan agreements with its holding company and its fellow subsidiaries, which constituted exempted connected transactions and were on normal commercial terms. As at 31 December 2024, the outstanding balance was HK$107.90 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. As a direct consequence of these strategic financial undertakings, the total interest-bearing bank and other borrowings experienced a reduction of 9.6%, declining to HK$195.97 million as at 31 December 2024, as compared to HK$216.72 million as at 31 December 2023. Concurrently, the liquidity ratio of the Group experienced an increase of 3.8%, aligning to 1.35 as at 31 December 2024 from 1.30 as at 31 December 2023. This repositioning underscored the Group's deliberate efforts to augment financial efficiency whilst preserving robust debt management and operational liquidity.

Restructuring of Financing Arrangements for Enhanced Cost Efficiency

In 2024, the Group strategically extended its banking facilities in Mainland China, for the purpose of enhancing its financing structure by obtaining low-cost borrowings in Mainland China and replacing the highest-cost borrowings that previously obtained in Hong Kong. Consequently, as at 31 December 2024, there was a notable increase in bank borrowings from Mainland China, coupled with a significant reduction in bank borrowings from Hong Kong. As at 31 December 2024, the proportion of interest-bearing bank borrowings denominated in Renminbi rose to 76.2%, up from 41.4% as at 31 December 2023. The average interest-bearing bank borrowing rate for the year ended 31 December 2024 significantly decreased by 11.1% to 4.8%, in contrast to 5.4% for the year ended 31 December 2023. This restructuring initiative remains an ongoing component of the Group's strategy, with plans to continue efforts throughout 2025. It is important to consider that during certain transitional phases in 2025, the Group may experience temporary increases in its gearing ratio. However, this strategy is intended to enable a further reduction in finance costs over time. Consequently, the restructuring of financing arrangements is anticipated to further reduce the overall cost of bank borrowings.

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 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**

In 2023, amidst economic uncertainties arising from heightened financial stress among property developers in Mainland China, the Group judiciously tackled these challenges through adept credit management. This included revising credit terms to mitigate the effects of extended payment deferrals on cash flow. By shortening credit periods and engaging in comprehensive discussions, the Group aimed to uphold financial stability and ensure timely receivables, thereby safeguarding liquidity. As at 31 December 2024, the gross trade and bills receivables connected to property developers and contractors recorded a decrease of 15.8% compared to 2023. This reduction was primarily attributed to settlements rather than write-offs.

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. As at 31 December 2024, there was a notable reduction in the total gross trade and bills receivables compared to 2023, achieved entirely through settlements being made by payment.

Additionally, the determination of the amount of impairment provision for trade and bill 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 prudent standards for impairment provision for trade and bill 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 28.6% to approximately HK$47.92 million for the year ended 31 December 2024, as compared to a loss of approximately HK$67.12 million for the year ended 31 December 2023. Despite this improvement, a loss persisted due to several key factors. The Group's gross profit margin showed considerable advancement, rising by 6.6 percentage points to 40.2% in 2024 from 33.6% in 2023. However, the reduction in gross profit was primarily due to a significant 33.5% decline in sales of paint and coating products. Additional financial pressures included a HK$24.19 million provision for impairment of trade and bill receivables, along with legal and professional fees totalling HK$7.03 million related to efforts to recover aged receivables. These financial outcomes illustrated the broader impact of challenging market conditions and the dynamic nature of the industry's competitive landscape. The downturn in paint and coating product sales was attributed to shifts in industrial demand across various sectors and intensified market competition, which adversely affected overall profitability. Furthermore, the provision for impairment of trade and bills receivables was implemented in accordance with prudent risk management policies and accounting standards, demonstrating the Group's commitment to efficient credit risk management.

SEGMENT INFORMATION

Business Segments

Paint and coating products

Paint operation continued to be the largest contributor to revenue, generating approximately HK$298.34 million, which accounted for 92.8% of the Group's total revenue. However, the paint and coating industry reported a decrease in overall total gross profit for the year 2024, driven by a continued intense competition, a noticeable contraction due to subdued domestic demand, decreased consumer spending, and a slowdown in construction activity across multiple sectors, leading to a 33.5% decrease in segment revenue when compared to 2023. Despite these challenges, the paint and coating sector gained from declining production costs. Crude oil prices steady at about US$75 per barrel in 2023 and 2024 following significant past volatility, the industry utilised stable cost forecasts to boost profitability. This stabilisation reduced raw material costs for paint and coating products amid changing price dynamics. In response to fierce competition and fluctuating demand, the Group implemented business revamp measures and initiatives, leading to an increase in its gross profit margin by 5.1 percentage points, raising to 35.6% from 30.5% in 2023. Despite improved operational efficiency, the Group recorded a segment loss of approximately HK$47.79 million for the year ended 31 December 2024, representing a 17.8% reduction, as compared to the segment loss of HK$58.15 million for the year ended 31 December 2023. This segment loss was chiefly attributed to a substantial 33.5% decrease in sales of paint and coating products, coupled with a provision of approximately HK$24.19 million for impairment of trade and bills receivables. This was in line with HKFRS 9 standards, taking into account historical credit loss experience, forward-looking information, and the probability of default considering current market conditions in the property development and construction sectors.

Property investment

The property investment segment of the Group recorded a segment revenue of HK$23.01 million for the year ended 31 December 2024, which accounted for 7.2% of the total revenue of the Group. The segment profit for the year was increased by 90.2% to approximately HK$12.09 million, in comparison to the segment profit of approximately HK$6.36 million for the year ended 31 December 2023. This impressive growth was mainly driven by a notable increase in rental income from investment properties of HK$2.40 million, coupled with the shifts in the net fair value losses of investment properties. The net fair value losses of investment properties narrowed to HK$7.98 million for the year ended 31 December 2024, reflecting an improvement from a HK$11.48 million for the year ended 31 December 2023. A significant factor was the full-year leasing of the Zhongshan Production Plant, complemented by the leasing of the Shanghai Production Plant that began after the first quarter of 2024, both bolstering rental income substantially. This scenario starkly contrasts with 2023, when properties began the year unleased, operating under only partial leasing arrangements.

Geographical Segments

The businesses of the Group are operated in Mainland China and Hong Kong. For the year ended 31 December 2024, revenue from operations in Mainland China and Hong Kong amounted to HK$264.15 million (2023: HK$410.02 million) and HK$57.20 million (2023: HK$59.07 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$169.25 million as at 31 December 2024, as compared to HK$144.94 million as at 31 December 2023. This notable increase was driven by proficient management of working capital and enhanced efficiency in the collection of trade and bills receivables, despite a 3.2% depreciation in Renminbi. The total cash and bank balances including pledged deposits, amounted to approximately HK$191.46 million as at 31 December 2024 (31 December 2023: HK$243.94 million). Bank and other borrowings amounted to approximately HK$195.97 million as at 31 December 2024 (31 December 2023: approximately HK$216.72 million). The Group's bank and other borrowings mainly bear interest at floating rates. As at 31 December 2024, the Group's total bank and other borrowings amounted to approximately HK$88.07 million (44.9%) (31 December 2023: approximately HK$120.75 million (55.7%)) and were payable within one year or on demand. An amount of the remaining balance of approximately HK$107.90 million (55.1%) (31 December 2023: approximately HK$95.97 million (44.3%)) is payable in the third to fifth years. Furthermore, as at 31 December 2024, the Group maintained unutilised financing facilities from the banks and other approximately HK$376.70 million, as compared to HK$258.40 million as at 31 December 2023.

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 52.0% as at 31 December 2024. This marked an increase from the 48.8% recorded as at 31 December 2023. The primary factor contributing to this increase was the 3.2% depreciation of the Renminbi, which accounted for 96.9% of the total increase in the gearing ratio. Liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.35 times as at 31 December 2024, showing an increase from 1.30 times as at 31 December 2023. This improvement was largely due to effective management of working capital and enhanced efficiency in the collection of trade and bills receivables.

Furthermore, as at 31 December 2024, net current assets were reduced by 17.3%, amounting to approximately HK$95.05 million, which was a decrease from approximately HK$114.96 million as at 31 December 2023. This reduction, totalling HK$19.91 million, was less than the HK$24.19 million allocated for the impairment of aged trade and bills receivables. Despite this decrease, the Group's net working capital exhibited improvement, as demonstrated by a 3.8% increase in the liquidity ratio. This enhancement was attributed to prudent financial and strategic management, as outlined in the "Strategic Financial Restructuring and Optimisation" section of the "Business Plans". The main factor contributing to this positive development was the optimisation of the capital structure, achieved through the reduction and repayment of various outstanding short-term bank borrowings, along with their conversion into long-term borrowings from the holding company. These strategic actions improved the Group's liquidity and financial stability compared to the previous year.

During the year ended 31 December 2024, the Group recorded a slight increase in inventory turnover days[1], from 32 days to approximately 36 days, reflecting strategic adjustments within a highly competitive market and fluctuating demand conditions. Despite the significant 33.5% decrease in sales compared to 2023, the Group adeptly managed to reduce inventories by 31.8%, aligning closely with current market conditions. Furthermore, the cost of sales decreased markedly by 38.4%, due to effective cost management and streamlined operations. The increase in inventory turnover days resulted from a more pronounced decrease in the cost of sales relative to average inventory, signifying the Group's proactive approach in maintaining optimal stock levels while enhancing operational efficiency. This strategic approach stabilises the Group's supply chain and positions the Group favourably to seize market opportunities.

During the year ended 31 December 2024, the trade and bills receivables turnover days[2] were decreased to 127 days, as compared to 134 days in 2023. This improvement underscored the effectiveness of the Group's strategic initiatives, particularly in the paint and coating products sector, where the Group adeptly navigated a challenging market. Although there was a decline in sales within this segment, the Group's proactive credit management had demonstrated resilience. As part of the strategy, the Group allocated HK$24.19 million for the provision for the impairment of trade and bills receivables for the year ended 31 December 2024 demonstrated the Group's commitment to financial robustness and maintaining the trade accounts receivable in excellent condition. The Group not only safeguarded its financial position but also reinforced its dedication to transparency and accountability.

1 The calculation of inventory turnover days is based on the closing balance of inventories divided by the cost of sales times 366 days (31 December 2023: 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 366 days (31 December 2023: 365 days).

Equity and Net Asset Value

Shareholders' funds of the Company as at 31 December 2024 amounted to approximately HK$377.09 million, as compared to approximately HK$444.47 million as at 31 December 2023. Net asset value per share as at 31 December 2024 amounted to approximately HK$0.38, as compared to approximately HK$0.45 as at 31 December 2023. 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 2024, the amount of utilised banking facilities granted to various subsidiaries subject to guarantees given by the Company was approximately HK$21.00 million (31 December 2023: approximately HK$70.80 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$0.64 million as at 31 December 2024 (31 December 2023: approximately HK$0.88 million).

Pledge of Assets

As at 31 December 2024, certain investment properties, property, plant and equipment, right-of-use assets and cash deposits with an aggregate net book value of approximately HK$312.08 million, as compared to approximately HK$333.09 million as at 31 December 2023, were pledged to financial institutions as collaterals for bills payables, bank borrowings, performance bonds and lease liabilities.

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 2024. 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 2024, the Group invested a total sum of HK$0.74 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 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 and the right-of-use asset.

HUMAN RESOURCES

As at 31 December 2024, the Group had 440 employees, representing a significant decrease from the figure of 495 as at 31 December 2023. The staff costs for the year ended 31 December 2024 amounted to approximately HK$80.10 million, excluding directors' emoluments and including equity-settled share-based payments of approximately HK$0.17 million. This represents a decrease from the staff costs of approximately HK$95.81 million and a reduction in equity-settled share-based payments to approximately HK$1.05 million in 2023.

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 2024, 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 2024, 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 2024.

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 2024. 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 2024.

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 2024 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 2024, 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 C1 (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 the 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 C3 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 2024.

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

Hong Kong, 27 March 2025

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.