CNT GROUP LIMITED
北海集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 701)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2023	2022	Change
Results	**HK$'000**	HK$'000	%
Revenue	**495,654**	665,591	-25.5
Gross profit	**174,584**	156,162	11.8
Gross profit margin	**35.2%**	23.5%	49.8
Loss for the year	**(85,220)**	(118,989)	-28.4
Loss attributable to:			
Shareholders of the Company	**(68,579)**	(94,081)	-27.1
Non-controlling interests	**(16,641)**	(24,908)	-33.2
Loss per share (HK cents)			
Basic and diluted	**(3.60)**	(4.94)	-27.1

	As at 31 December 2023	As at 31 December 2022	Change
Financial Position	**HK$'000**	HK$'000	%
Cash and cash equivalents and pledged deposits	**359,386**	429,076	-16.2
Bank borrowings	**171,450**	289,116	-40.7
Gearing ratio	**13.0%**	19.9%	-34.7
Net asset value per share (HK$)	**0.76**	0.83	-8.4
Shareholders' funds per share (HK$)	**0.70**	0.76	-7.9

The board of directors (the "Board") of CNT Group Limited (the "Company") announces the consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2023 together with comparative amounts for the corresponding year in 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2023

	Notes	**2023** **HK$'000**	2022 HK$'000
REVENUE	3	**495,654**	665,591
Cost of sales		**(321,070)**	(509,429)
Gross profit		**174,584**	156,162
Other income and gains, net	3	**14,120**	44,446
Selling and distribution expenses		**(61,446)**	(89,567)
Administrative expenses		**(111,358)**	(148,716)
Other expenses, net		**(60,773)**	(60,841)
Fair value losses on investment properties, net	10	**(30,561)**	(15,391)
Finance costs	4	**(12,562)**	(8,272)
Share of profits and losses of an associate		**1,668**	1,724
LOSS BEFORE TAX	5	**(86,328)**	(120,455)
Income tax credit	6	**1,108**	1,466
LOSS FOR THE YEAR		**(85,220)**	(118,989)
ATTRIBUTABLE TO:			
Owners of the parent		**(68,579)**	(94,081)
Non-controlling interests		**(16,641)**	(24,908)
		(85,220)	(118,989)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
Basic and diluted		**HK(3.60) cents**	HK(4.94) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023

	2023	2022
	HK$'000	HK$'000
LOSS FOR THE YEAR	**(85,220)**	(118,989)
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	**(29,580)**	(67,480)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Changes in fair value of equity investments designated at fair value through other comprehensive income	**(8,093)**	(5,883)
Gain on property revaluation	**21,273**	154,698
Income tax effect	**(5,101)**	(23,204)
	16,172	131,494
Remeasurement of net pension scheme assets	**–**	(1,438)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**8,079**	124,173
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(21,501)**	56,693
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(106,721)**	(62,296)
ATTRIBUTABLE TO:		
Owners of the parent	**(89,196)**	(57,356)
Non-controlling interest	**(17,525)**	(4,940)
	(106,721)	(62,296)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	**2023 HK$'000**	2022 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**425,520**	471,004
Investment properties	10	**772,933**	729,079
Property under development		**28,000**	28,000
Right-of-use assets		**51,811**	97,975
Interest in an associate		**2,572**	2,707
Equity investments designated at fair value through other comprehensive income		**34,011**	42,104
Deposits for purchases of property, plant and equipment		**4,185**	4,308
Deposits and prepayments		**764**	500
Deferred tax assets		**19,715**	15,542
Total non-current assets		**1,339,511**	1,391,219
CURRENT ASSETS			
Inventories		**27,353**	43,124
Trade and bills receivables	11	**173,707**	370,601
Prepayments, deposits and other receivables		**55,476**	67,080
Financial assets at fair value through profit or loss		**–**	407
Pledged deposits		**98,994**	42,202
Cash and cash equivalents		**260,392**	386,874
Total current assets		**615,922**	910,288
CURRENT LIABILITIES			
Trade and bills payables	12	**195,523**	260,778
Other payables and accruals		**60,976**	86,184
Due to an associate		**2,800**	2,800
Interest-bearing bank borrowings		**171,450**	289,116
Lease liabilities		**3,579**	3,571
Tax payable		**11,299**	10,796
Total current liabilities		**445,627**	653,245
NET CURRENT ASSETS		**170,295**	257,043
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,509,806**	1,648,262

	2023 HK$'000	2022 HK$'000
NON-CURRENT LIABILITIES		
Lease liabilities	**3,867**	5,213
Deferred tax liabilities	**56,363**	51,576
Deferred income	**335**	635
Deposits received	**5,181**	3,665
Total non-current liabilities	**65,746**	61,089
Net assets	**1,444,060**	1,587,173
EQUITY		
Equity attributable to owners of the parent		
Issued capital	**190,369**	190,369
Reserves	**1,132,930**	1,260,200
	1,323,299	1,450,569
Non-controlling interests	**120,761**	136,604
Total equity	**1,444,060**	1,587,173

NOTES TO FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss, 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.

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

(b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

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

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

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

2. OPERATING SEGMENT INFORMATION

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

(a) the paint products segment engages in the manufacture and sale of paint and coating products through CPM Group Limited (the “CPM”, together with its subsidiaries collectively as the “CPM Group”);

(b) the property investment segment comprises:

  (i) the investment in residential, commercial and industrial properties for their rental income potential; and

  (ii) the development and sale of properties;

(c) the hotel business; and

(d) the others segment comprises, principally, investment holding, securities trading and trading of iron and steel products.

The chief operating decision-maker regularly reviews the operating results of the operating segment of the Group 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 profit/loss before tax of the Group except that interest income, finance costs, as well as head office and corporate expenses are excluded from such measurement.

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

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

Intersegment sales and transfers are transacted on mutually agreed terms.

Year ended 31 December 2023	Paint products HK$'000	Property investment HK$'000	Hotel business HK$'000	Others HK$'000	Total HK$'000
Segment revenue					
Sales to external customers	**448,475**	**36,180**	**10,999**	**–**	**495,654**
Intersegment sales	**–**	**3,215**	**–**	**–**	**3,215**
Other revenue and gains, net	**7,475**	**961**	**–**	**(678)**	**7,758**
	455,950	**40,356**	**10,999**	**(678)**	**506,627**
Reconciliation:					
Elimination of intersegment sales					**(3,215)**
Total					**503,412**
Segment results	**(58,152)**	**1,316**	**334**	**(196)**	**(56,698)**
Reconciliation:					
Elimination of intersegment results					**(2,536)**
Interest income					**6,362**
Finance costs					**(12,562)**
Corporate and other unallocated expenses					**(20,894)**
Loss before tax					**(86,328)**
Segment assets	**639,424**	**905,608**	**280,940**	**54,213**	**1,880,185**
Reconciliation:					
Corporate and other unallocated assets					**171,759**
Elimination of inter-company receivables					**(96,511)**
Total assets					**1,955,433**
Segment liabilities	**482,024**	**111,852**	**7,474**	**2,641**	**603,991**
Reconciliation:					
Corporate and other unallocated liabilities					**3,893**
Elimination of inter-company payables					**(96,511)**
Total liabilities					**511,373**

Year ended 31 December 2023	Paint products HK$'000	Property investment HK$'000	Hotel business HK$'000	Others HK$'000	Total HK$'000
Other segment information					
Share of profits and losses of an associate	–	(1,668)	–	–	(1,668)
Interest in an associate	–	2,572	–	–	2,572
Depreciation on property, plant and equipment	17,881	2,158	1,848	5	21,892
Corporate and other unallocated depreciation					13
					21,905
Depreciation on right-of-use assets	5,341	1,291	–	–	6,632
Corporate and other unallocated depreciation					14
					6,646
Capital expenditure*	3,989	8	–	–	3,997*
Fair value losses on investment properties, net	–	30,561	–	–	30,561
Loss on revaluation of property, plant and equipment	26	–	–	–	26
Loss on revaluation of right-of-use assets	1,778	–	–	–	1,778
Provision/(reversal of provision) for impairment of trade and bills receivables, net	50,128	–	–	(974)	49,154
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 for inventories to net realisable value, net	(36)	–	–	–	(36)

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

Year ended 31 December 2022	Paint products HK$'000	Property investment HK$'000	Hotel business HK$'000	Others HK$'000	Total HK$'000
Segment revenue					
Sales to external customers	639,134	19,983	4,828	1,646	665,591
Intersegment sales	–	4,696	–	–	4,696
Other revenue and gains, net	36,403	4,448	300	(1,456)	39,695
	675,537	29,127	5,128	190	709,982
Reconciliation:					
Elimination of intersegment sales					(4,696)
Total					705,286
Segment results	(86,366)	7,777	(6,075)	(3,557)	(88,221)
Reconciliation:					
Elimination of intersegment results					(609)
Interest income					4,751
Finance costs					(8,272)
Corporate and other unallocated expenses					(28,104)
Loss before tax					(120,455)
Segment assets	894,058	845,651	282,379	69,661	2,091,749
Reconciliation:					
Corporate and other unallocated assets					210,543
Elimination of intersegment receivables					(785)
Total assets					2,301,507
Segment liabilities	594,580	104,731	9,408	2,917	711,636
Reconciliation:					
Corporate and other unallocated liabilities					3,483
Elimination of intersegment payables					(785)
Total liabilities					714,334

Year ended 31 December 2022	Paint products HK$'000	Property investment HK$'000	Hotel business HK$'000	Others HK$'000	Total HK$'000
Other segment information					
Share of profits and losses of an associate	–	(1,724)	–	–	(1,724)
Interest in an associate	–	2,707	–	–	2,707
Depreciation on property, plant and equipment	25,706	2,177	1,841	19	29,743
Corporate and other unallocated depreciation					9
					29,752
Depreciation on right-of-use assets	7,170	609	–	–	7,779
Corporate and other unallocated depreciation					14
					7,793
Capital expenditure*	21,736	1,396	–	–	23,132
Corporate and other unallocated capital expenditure					23
					23,155*
Fair value losses on investment properties, net	–	15,391	–	–	15,391
Provision/(reversal of provision) for impairment of trade and bills receivables, net	16,308	(1,198)	–	(90)	15,020
Trade receivables written off as uncollectible	522	–	–	–	522
Provision for impairment of property, plant and equipment	1,855	–	–	–	1,855
Provision for impairment of right-of-use assets	6,145	–	–	–	6,145
Reversal of provision for inventories to net realisable value, net	(135)	–	–	(815)	(950)

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

Geographical information

(a) Revenue from external customers

	2023 HK$'000	2022 HK$'000
Hong Kong	**77,988**	83,383
Mainland China	**417,666**	582,208
	495,654	665,591

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

(b) Non-current assets

	2023 HK$'000	2022 HK$'000
Hong Kong	**641,158**	664,538
Mainland China	**644,627**	668,535
	1,285,785	1,333,073

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

Information about a major customer

During the years ended 31 December 2023 and 2022, no revenue from any single customer accounted for 10% or more of the total revenue of the Group.

3. REVENUE, OTHER INCOME AND GAINS, NET

An analysis of revenue is as follows:

	2023 HK$'000	2022 HK$'000
Revenue from contracts with customers		
Sale of paint products	**448,475**	639,134
Sale of iron and steel products	**–**	1,646
Hotel operation	**10,999**	4,828
Revenue from other sources		
Gross rental income from investment properties operating leases	**36,180**	19,983
	495,654	665,591

Disaggregated revenue information for revenue from contracts with customers

For the year ended 31 December 2023	**Paint products HK$'000**	**Iron and steel products HK$'000**	**Hotel business HK$'000**	**Total HK$'000**
Segments				
Types of goods or services				
Sale of industrial products	**448,475**	**–**	**–**	**448,475**
Hotel operation	**–**	**–**	**10,999**	**10,999**
Total revenue from contracts with customers	**448,475**	**–**	**10,999**	**459,474**
Geographical markets				
Hong Kong	**59,073**	**–**	**10,999**	**70,072**
Mainland China	**389,402**	**–**	**–**	**389,402**
Total revenue from contracts with customers	**448,475**	**–**	**10,999**	**459,474**
Timing of revenue recognition				
Goods transferred at a point in time	**448,475**	**–**	**–**	**448,475**
Service satisfied over time	**–**	**–**	**10,999**	**10,999**
Total revenue from contracts with customers	**448,475**	**–**	**10,999**	**459,474**

For the year ended 31 December 2022	Paint products HK$'000	Iron and steel products HK$'000	Hotel business HK$'000	Total HK$'000
Segments				
Types of goods or services				
Sale of industrial products	639,134	1,646	–	640,780
Hotel operation	–	–	4,828	4,828
Total revenue from contracts with customers	639,134	1,646	4,828	645,608
Geographical markets				
Hong Kong	68,493	–	4,828	73,321
Mainland China	570,641	1,646	–	572,287
Total revenue from contracts with customers	639,134	1,646	4,828	645,608
Timing of revenue recognition				
Goods transferred at a point in time	639,134	1,646	–	640,780
Service satisfied over time	–	–	4,828	4,828
Total revenue from contracts with customers	639,134	1,646	4,828	645,608

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

	2023 **HK$'000**	2022 HK$'000
Other income and gains, net		
Bank interest income	**6,362**	4,751
Dividend income from financial assets at fair value through profit or loss held for trading	**8**	179
Government grants*	**836**	1,941
Government subsidies^	**4,077**	33,245
Recognition of deferred income	**284**	299
Gain on disposal of items of property, plant and equipment, net	**553**	537
Fair value losses on financial assets at fair value through profit or loss held for trading, net	**(3)**	(339)
Net losses on dealings in financial assets at fair value through profit or loss held for trading	**(154)**	(1,112)
Surrender income for early termination of tenancy agreement	**–**	2,297
Others	**2,157**	2,648
	14,120	44,446

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

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

During the year ended 31 December 2022, the PRC government granted subsidies for the removal of solvent production lines and solvent storage tanks in both the production plants in Shajing (the "Shajing Production Plant") and Hubei Production Plant located in Mainland China. The subsidies amounted to HK$27,057,000 and HK$2,373,000, respectively. Furthermore, a subsidy of HK$1,874,000 was granted for relocating the main factory entrances within the complex situated in Shanghai, Mainland China. In addition, subsidies of HK$1,941,000 were granted from the 2022 Employment Support Scheme and Hotel Sector Support Scheme under the Anti-epidemic Fund of the Hong Kong government. There were no unfulfilled conditions or contingencies relating to these government subsidies.

4. FINANCE COSTS

An analysis of finance costs is as follows:

	2023	2022
	HK$'000	HK$'000
Interest on bank loans	**12,100**	7,944
Interest on lease liabilities	**462**	328
	12,562	8,272

5. LOSS BEFORE TAX

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

	2023	2022
	HK$'000	HK$'000
Cost of inventories sold	**321,070**	509,429
Depreciation of property, plant and equipment	**21,905**	29,752
Depreciation of right-of-use assets	**6,646**	7,793
Dividend income from financial assets at fair value through profit or loss held for trading*	**(8)**	(179)
Equity-settled share option expenses	**1,682**	5,610
Fair value losses on financial assets at fair value through profit or loss held for trading, net*	**3**	339
Fair value losses on investment properties, net	**30,561**	15,391
Foreign exchange differences, net*	**2,864**	1,789
Gain on disposal of items of property, plant and equipment, net*	**(553)**	(537)
Loss on revaluation of property, plant and equipment*	**26**	–
Loss on revaluation of right-of-use assets*	**1,778**	–
Net losses on dealings in financial assets at fair value through profit or loss held for trading*	**154**	1,112
Provision for impairment of trade and bills receivables, net*	**49,154**	15,020
(Reversal of)/provision for impairment of property, plant and equipment*	**(927)**	1,855
(Reversal of)/provision for impairment of right-of-use assets*	**(3,710)**	6,145
Reversal of provision of inventories to net realisable value, net@	**(36)**	(950)
Staff termination cost*	**1,226**	21,581
Trade receivable written off as uncollectible*	**–**	522
Write-off of items of property, plant and equipment*	**54**	1,354

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

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

6. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group has sufficient tax losses brought forward to set off against assessable profits for the year ended 31 December 2023 (2022: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

All subsidiaries of the Group established in Mainland China are subject to the PRC corporate income tax at a standard rate of 25% (2022: 25%) during the year, except for a subsidiary of the Group which qualified as a PRC High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% (2022: 15%) had been applied during the year.

	2023	2022
	HK$'000	HK$'000
Current – Elsewhere		
Charge for the year	**1,038**	257
Under/(over) provision in prior years	**1,304**	(292)
Deferred	**(3,450)**	(1,431)
Total tax credit for the year	**(1,108)**	(1,466)

The share of tax attributable to an associate amounting to HK$329,000 (2022: HK$341,000) is included in "Share of profits and losses of an associate" in the consolidated statement of profit or loss.

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

The calculation of the basic and diluted loss per share amount is based on the loss for the year attributable to ordinary equity holders of the parent of HK$68,579,000 (2022: HK$94,081,000), and the weighted average number of ordinary shares of 1,903,685,690 (2022: 1,903,685,690) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2023 and 2022.

8. DIVIDEND

The directors of the Company have resolved not to recommend the payment of any dividend for the year ended 31 December 2023.

At the general meeting held on 6 June 2023, the Company's shareholders approved the distribution of the final dividend for the year ended 31 December 2022 of HK2.0 cents per share which amounted to approximately HK$38,074,000.

9. PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2023, the Group acquired items of properties, plant and equipment at costs of HK$3,997,000 (31 December 2022: HK$11,572,000) and transferred industrial properties and a commercial property to investment properties at a fair value of HK$45,047,000. In 2022, the Group transferred an industrial property to an investment property at a fair value of HK$160,710,000 on 21 October 2022.

10. INVESTMENT PROPERTIES

	2023	2022
	HK$'000	HK$'000
Carrying amount at 1 January	**729,079**	601,378
Fair value losses, net	**(30,561)**	(15,391)
Transfer from owner-occupied properties	**45,047**	160,710
Transfer from right-of-use assets	**43,540**	–
Exchange realignment	**(14,172)**	(17,618)
Carrying amount at 31 December	**772,933**	729,079

The investment properties of the Group consist of residential, commercial and industrial properties in Hong Kong and the PRC. The directors of the Company have determined that investment properties consist of five classes of asset, i.e., commercial properties and residential and commercial composite building in Hong Kong and residential, commercial and industrial properties in the PRC during the year (31 December 2022: five classes of asset, i.e., commercial properties and serviced apartment in Hong Kong and residential, commercial and industrial properties in the PRC), based on the nature, characteristics and risks of each property.

The Group's investment properties were revalued on 31 December 2023 based on valuations performed by BMI Appraisals Limited and 中山市安平房地產評估有限公司, the independent professional qualified valuers. The finance department of the Group which reports directly to the senior management selects external valuers to be responsible for the external valuations of the properties of the Group based on market knowledge, reputation and independence of the external valuers, and whether professional standards are maintained by the external valuers.

Fair values of the investment properties of the Group are generally derived by using the income capitalisation method, the market comparison approach and the depreciated replacement cost approach. The finance department of the Group has discussions with the external valuers on the valuation assumptions and valuation results when the valuations are performed for interim and annual financial reporting.

11. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance may be required. The Group maintains a defined credit policy and credit periods are usually granted ranging from one to three months to normal customers. The Group seeks to maintain strict control over its receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables are related 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 except for receivables arising from leasing of investment properties where security deposits are required from the relevant tenants. Trade and bills receivables are non-interest-bearing.

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

	2023	2022
	HK$'000	HK$'000
Within three months	**65,801**	148,921
Over three months and within six months	**21,061**	72,445
Over six months	**86,845**	149,235
	173,707	370,601

12. TRADE AND BILLS PAYABLES

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

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

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

13. SHARE OPTION SCHEME

Share Option Schemes of the Company

The 2012 Scheme

The 2012 share option scheme (the "2012 Scheme") was adopted by the Company on 28 June 2012 pursuant to a resolution passed at the annual general meeting of the Company held on the same date.

The 2012 Scheme was terminated by the Company pursuant to a resolution passed at the special general meeting of the Company held on 2 June 2022. Further details are set out in the circular of the Company dated 28 April 2022. During the year ended 31 December 2022, no share options were granted under the 2012 Scheme.

The 2022 Scheme

A new share option scheme (the "2022 Scheme") was adopted by the Company on 2 June 2022 pursuant to a resolution passed at the special general meeting of the Company held on the same date. Unless terminated by a resolution in a general meeting or by the Board, the 2022 Scheme remains valid and effective for the period of 10 years commencing on 2 June 2022, after which period no further options will be issued but, in all other aspects, the provisions of the 2022 Scheme shall remain in full force and effect. Further details are set out in the circular of the Company dated 28 April 2022.

The 2022 Scheme will expire on 1 June 2032. During the year ended 31 December 2023 and 2022, no share options were granted under the 2022 Scheme.

Share Option Scheme of CPM

On 15 June 2022, 80,000,000 share options to subscribe for a total of 80,000,000 new shares of CPM of HK$0.10 each were granted to three directors of CPM and five employees of the CPM Group under the share option scheme (the "CPM Scheme") adopted by CPM on 4 June 2020. The CPM Scheme was adopted by CPM for the purpose of providing incentives to attract and retain employees of the CPM Group, as well as other eligible participants (including, but not limited to, executive directors, non-executive directors and independent non-executive directors of CPM, any supplier of goods or services to any member of the CPM Group and any customer of the CPM Group) who made contributions to the CPM Group. Unless terminated by resolution in general meeting or by the board of directors of CPM, the CPM Scheme shall be valid and effective for a period of 10 years commencing on 4 June 2020, after which period no further share options will be issued but in all other respects, the provisions of the CPM Scheme shall remain in full force and effect. Further details are set out in the circular of CPM dated 27 April 2020.

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

The following share options were outstanding under the CPM Scheme during the year ended 31 December 2023:

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

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

The fair value of equity-settled share options granted during the year ended 31 December 2022 was estimated as at the date of grant, using a Binomial Option Pricing Model (the "Model"), taking into account the terms and conditions upon which the share options were granted. The Model is one of the commonly used models to estimate the fair value of a share option. The value of a share option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of a share option. The following table lists the inputs to the Model used:

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

No share options were granted under the CPM Scheme during the year ended 31 December 2023 (2022: the fair value of the share options granted under the CPM Scheme on 15 June 2022 was HK$8,417,000). Share option expense of approximately HK$1,682,000 was recognised by the CPM Group during the year ended 31 December 2023 (2022: HK$5,610,000).

DIVIDEND

The directors of the Company do not recommend the payment of final dividend for the year ended 31 December 2023 (2022: HK2.0 cents per share).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' eligibility to attend and vote at the forthcoming annual general meeting of the Company, the register of members of the Company will be closed from Thursday, 30 May 2024 to Tuesday, 4 June 2024, both days inclusive, during the period no transfer of shares will be effected. In order to be entitled to attend and vote at the forthcoming annual general meeting of the Company, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Wednesday, 29 May 2024.

CHAIRMAN'S STATEMENT

OVERVIEW

During the year ended 31 December 2023, the Group was engaged in three principal business segments. The largest business segment of the Group continued to be the paint and coating business operated by CPM which is a 75% non wholly-owned subsidiary of the Company and listed on The Stock Exchange of Hong Kong Limited.

The Group is also active in enriching its investment property portfolio for the purposes of increasing the rental income as well as value appreciation. During the year, the revenue of the paint and coating business of the Group decreased and the investment return from the investment property portfolio of the Group increased, both as compared to the year ended 31 December 2022. The revenue from the hotel business of the Group also increased which resulted in a decrease in the segmental loss during the year ended 31 December 2023.

The global business environment has gradually improved in 2023, even though such the macroeconomic performance continues to be affected by a number of uncertainties, such as the geopolitical tensions, the Russia-Ukraine conflict and the global inflationary pressure. The economy rebound in Mainland China did not benefit each economic sector in 2023. In particular, the property sector was sluggish and the levels of foreign investments in Mainland China remained low and the domestic consumption in the country was not recovering and improving at such pace as originally anticipated. Following the removal of all quarantine restrictions measures in January 2023, Hong Kong economy has also gradually revived during the year.

The revenue of the paint and coating business of the Group recorded a decrease of 29.8% in 2023 to approximately HK$448.48 million, as compared to approximately HK$639.13 million in 2022. The gross profit generated from this business in 2023 was approximately HK$136.93 million, representing a decrease of 1.2%, as compared to approximately HK$138.61 million in 2022.

Revenue generated from the investment property business of the Group in 2023 increased by 81.1% to approximately HK$36.18 million, as compared to approximately HK$19.98 million in 2022. The net fair value losses of the investment property portfolio of the Group amounted to approximately HK$30.56 million in 2023 as compared to the same of approximately HK$15.39 million in 2022, primarily due to the continuous unfavourable property market conditions in Hong Kong and Mainland China.

Revenue generated from the hotel business of the Group in 2023 increased by 127.7% to approximately HK$11.0 million, as compared to approximately HK$4.83 million in 2022. The hotel business of the Group in 2023 was benefited from the increase in the number and consumption spending of visitors to Hong Kong.

The revenue of the Group for the year ended 31 December 2023 amounted to approximately HK$495.65 million, representing a decrease of 25.5%, as compared to approximately HK$665.59 million in 2022. Gross profit increased by approximately HK$18.42 million to approximately HK$174.58 million, representing an increase of 11.8%, as compared to the gross profit in 2022. Loss attributable to the shareholders of the Company for the year ended 31 December 2023 was significantly decreased to approximately HK$68.58 million, as compared to the loss attributable to the shareholders of the Company of approximately HK$94.08 million in 2022.

PROSPECTS

The global economic outlook in 2024 remains uncertain due to the continuous development in the geopolitical tensions and the outbreak of military conflicts in some regions. The global inflationary pressure are forecasted to moderate further in 2024 and the possible interest rate decrease may reduce the pressure on commercial real estate valuations and the interest expense for project lending and financing.

The economic recovery of Mainland China is slower than the general consensus. In particular, the PRC's real estate market as a whole and the financial condition of certain real property developers are expected to remain uncertain because of various industry-wide issues.

In Hong Kong, the economic growth is also slow due to a numerous of internal and external factors. The domestic consumption was very conservative in 2023. Even after the normalisation of the border traffics between Hong Kong and Mainland China in 2023, the return of the visitors could only help partial recovery of the retail business sector in Hong Kong. The property market as well as the performance of the stock market are expected to remain at low levels. Office lease market is forecasted no significant growth in 2024 due to the cautious approaches taken by the business enterprises when they are considering in expanding their business presence in Hong Kong amid the geopolitical tensions and the lower-than-expected economic performance across different business sectors.

The number of visitors increased as the borders between Hong Kong and Mainland China resume normal. Hong Kong continues to be one of the most attractive places for international conferences, trade shows and business events. Although the hotel business has begun to recover during the year, the profitability and the stability of such business in the future are far from overly positive and it is not straightforward to expect that the business will be fully recovered in 2024.

While maintaining its existing core paint and coating business through the CPM Group, the directors of the Company constantly review the business activities of the Group, including its investment property portfolio, and will act prudently in assessing opportunities on investment properties for the purpose of increasing the rental income and the cash flows for investment purposes and exploring other new business opportunities to drive the continuous business development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 31 December 2023, the Group was engaged in three principal business segments, namely (a) investment property business; (b) hotel business; and (c) paint and coating business. The paint and coating business was conducted by CPM. Other than these three business segments, the Group also holds certain equity and listed securities for investment purpose and owns a parcel of land in Yuen Long, Hong Kong for re-development.

BUSINESS REVIEW

During the year ended 31 December 2023, the Group recorded a loss attributable to the shareholders of the Company of approximately HK$68.58 million, as compared to the same of approximately HK$94.08 million for the year ended 31 December 2022. The loss incurred by the Group for the year ended 31 December 2023 was primarily due to the combined effect of (a) the net fair value losses of approximately HK$30.56 million recorded on the investment properties of the Group in Hong Kong and Mainland China as at 31 December 2023, as compared with the same of approximately HK$15.39 million as at 31 December 2022; and (b) the loss incurred by the CPM Group for the year ended 31 December 2023 of approximately HK$67.12 million as compared with the same of approximately HK$98.08 million for the year ended 31 December 2022. Further information on the performance of the CPM Group is set forth in the results announcement of CPM for the year ended 31 December 2023 dated 27 March 2024.

Including the revenue generated by the CPM Group, the revenue of the Group during the year ended 31 December 2023 was approximately HK$495.65 million, represented a decrease of 25.5% from HK$665.59 million for the year ended 31 December 2022. The amount of gross profit of the Group for the year ended 31 December 2023 was approximately HK$174.58 million, represented an increase of 11.8% from HK$156.16 million for the year ended 31 December 2022. The increase in the gross profit of the Group was primarily due to the increase in rental income from the investment properties held by the Group and the improvement in the gross profit margin during the year ended 31 December 2023.

Furthermore, the Group achieved an adjusted profit of approximately HK$36.18 million for the year ended 31 December 2023, as compared to an adjusted loss of approximately HK$38.62 million for the year ended 31 December 2022. This adjusted profit or loss excluded various gains and expenses such as depreciation of property, plant and equipment, provision for impairment of trade and bills receivables, depreciation of right-of-use assets, share option expenses, net fair value losses on investment properties, finance costs and income tax.

The revenue of the paint and coating business of the CPM Group accounted for 90.5% of the Group's revenue for the year ended 31 December 2023, as compared to 96.0% of the same for the year ended 31 December 2022.

INVESTMENT PROPERTY BUSINESS

Investment Properties

The revenue generated from the investment property business for the year ended 31 December 2023 amounted to approximately HK$36.18 million as compared to approximately HK$19.98 million for the year ended 31 December 2022. The significant increase in the amount of revenue was primarily due to the increase in the investment properties held by the CPM Group following the integration of its paint and coating production activities in the PRC.

The revenue generated from the investment properties held by the Group (excluding the CPM Group) and the CPM Group for the year ended 31 December 2023 amounted to approximately HK$15.56 million (as compared to approximately HK$16.06 million for the year ended 31 December 2022) and approximately HK$20.62 million (as compared to approximately HK$3.92 million for the year ended 31 December 2022), respectively.

The investment property portfolio of the Group consists of 20 properties as at 31 December 2023 as compared to 17 properties as at 31 December 2022. The gross floor area of the investment property portfolio includes properties with gross floor area of 1,014,246 square feet ("sq. ft.") as at 31 December 2023, as compared to 704,357 sq. ft. as at 31 December 2022. These investment properties included residential, commercial and industrial properties in Hong Kong and Mainland China and are held for the purposes of generating stable rental income and cash flows for long-term investment purposes.

The aggregate market value of the investment properties held by the Group amounted to approximately HK$772.93 million as at 31 December 2023 as compared to approximately HK$729.08 million as at 31 December 2022, including the investment properties held by the CPM Group, representing a modest increase of 6.0% as compared to the same as at 31 December 2022. The increase in the market value of the investment properties was primarily due to the net-off effect of (a) the reclassification of certain properties owned by the CPM Group in Mainland China to investment properties; (b) the record of the net fair value losses on investment properties of the Group; and (c) the depreciation of Renminbi as at 31 December 2023.

The market value of the investment properties of the Group (excluding the CPM Group) and the CPM Group as at 31 December 2023 amounted to approximately HK$463.84 million (as compared to approximately HK$488.14 million as at 31 December 2022) and approximately HK$309.09 million (as compared to approximately HK$240.94 million as at 31 December 2022), respectively.

The average occupancy rate for the investment properties of the Group in 2023 was 93.6%, as compared to 81.9% in 2022. The increase in the occupancy rate was primarily due to the leasing of the Shajing Production Plant and parts of the production plant in Zhongshan, the PRC by the CPM Group to independent third parties. The recorded gross rental income (including inter-group rental income) increased to approximately HK$39.40 million for the year ended 31 December 2023 as compared to approximately HK$24.68 million for the year ended 31 December 2022.

The segmental profit for the year ended 31 December 2023 amounted to approximately HK$1.32 million, as compared to approximately HK$7.78 million for the year ended 31 December 2022. The significant decrease in the segmental profit was primarily due to the net fair value losses of approximately HK$30.56 million recorded on the investment properties held by the Group in Hong Kong and Mainland China as at 31 December 2023, as compared to the same of approximately HK$15.39 million as at 31 December 2022. The increase in the net fair value losses on investment properties of approximately HK$15.17 million during the year ended 31 December 2023 rendered the significant decrease in segmental profit for the year ended 31 December 2023. The net fair value losses for the year ended 31 December 2023 was generally consistent with the continuous unfavourable property market conditions in Hong Kong and Mainland China.

The Group will constantly review the portfolio of its investment properties and will act prudently in making any decision on the acquisition of new properties in Hong Kong and/or Mainland China that may generate a constant flow of income with capital gain potential.

Property Under Development

An application was submitted on 30 September 2021 by Joyous Cheer Limited, a wholly-owned subsidiary of the Company, pursuant to Section 16 of the Town Planning Ordinance (Chapter 131 of the Laws of Hong Kong), for seeking the permission from the Town Planning Board (the "TPB") for (a) proposed conservation of historic building (being the preservation of Pun Uk 潘屋); (b) proposed construction of a recreation, sports or cultural centre (being the design to include an art/antique gallery and the development of heritage education); and (c) proposed construction of certain social welfare facility (which include the operation of residential care homes for the elderly (the "RCHE")) with ancillary catering facility on the land at Au Tau, Yuen Long (the "Au Tau Land") owned by the Group.

The Au Tau Land covers a site area of about 3,663.9 square meters and is currently occupied by Pun Uk, which is a Grade 1 historical building built in the 1930s.

Due to the heritage value of Pun Uk, any redevelopment on the Au Tau Land will have to include the preservation of Pun Uk, the promotion of the heritage value and the achievement of a commercial project that can generate reasonable economic return and prosperity.

In August 2022, the Rural and New Town Planning Committee of the TPB approved the application of the Group for the redevelopment of the Au Tau Land with permission on (a) the preservation of Pun Uk; (b) the construction of a place of recreation, sports or cultural centre; and (c) the construction of an elderly home that has around 530 beds and other related facilities (collectively, the "Re-development Project"). The permission is valid for four years until August 2026.

Pursuant to the Re-development Project, there will be three non-domestic buildings comprising the existing Pun Uk and two new buildings to be constructed as RCHE. The north building of the proposed RCHE will have six storeys, i.e. basement, 1/F to 6/F, whereas the south building will have five storeys, i.e. 1/F to 5/F. Essential functional areas/facilities, such as administrative office, dining area, staff room and other supporting facilities would be provided and developed at the detailed design stage. Car parking spaces will also be included in the re-development design.

The Group is actively exploring different options available for the Re-development Project. Based on the current financial position of the Group and its business focus and expertise, the directors of the Company are of the preliminary view that the Re-development Project may be disposed of to the independent third parties. They are also of the view that the disposal may be the most viable option which is in the best interest of the Company and the shareholders of the Company as a whole.

HOTEL BUSINESS

Since December 2021, the Group has engaged a hotel operator (the "Operator") to manage and operate the hotel under the brand name of "J Link Hotel". The Operator is an experienced hotel operator for small to medium-sized hotels.

During the year ended 31 December 2023, the average number of available room nights was 76 and the occupancy rate was approximately 97%. The gross revenue from the hotel business for the year ended 31 December 2023 amounted to approximately HK$11.00 million, as compared to approximately HK$4.83 million for the year ended 31 December 2022. Segmental profit for the year ended 31 December 2023 amounted to approximately HK$0.33 million, as compared to segmental loss approximately HK$6.08 million for the year ended 31 December 2022.

The J Link Hotel aims to attract short-haul international travellers and/or Hong Kong residents for staycation. The directors of the Company believe that both the room occupancy and the average room rates will continue to improve with the rebound of the international travel and the relaxation of travel restrictions in Hong Kong since the early of 2023.

PAINT AND COATING BUSINESS

Further information on the paint and coating business is set forth in the results announcement of CPM for the year ended 31 December 2023 and the following information on the paint and coating business is extracted for ease of reference.

General Background

For the paint and coating business, the products of the CPM 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 architectural paint and coating products of the CPM Group focus primarily on the construction and maintenance markets for 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.

The following sets forth an analysis of the CPM Group's revenue from the sales of the paint and coating products for the year ended 31 December 2023 (with comparative figures for the year ended 31 December 2022):

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

The CPM Group continues to focus on Mainland China market with contributed to approximately 86.8% (2022: approximately 89.3%) of the total revenue generated from the sales of the paint and coating products in 2023.

Segmental Results

Revenue from paint and coating products

The CPM Group's revenue from sales of paint and coating products for the year ended 31 December 2023 amounted to approximately HK$448.48 million, representing a significant decrease of 29.8% as compared to approximately HK$639.13 million for the year ended 31 December 2022.

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

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

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

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

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

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

Geographical Analysis of Revenue

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

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

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

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

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

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

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

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

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

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

Cost of raw materials

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

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

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

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

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

Other Income and Gains, Net

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

Selling and Distribution Expenses and Administrative Expenses

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

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

Other Expenses, net

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

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

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

Business Initiatives

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

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

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

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

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

2. ***Strategic Financial Restructuring and Optimisation***

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

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

Restructuring of Financing Arrangements for Enhanced Cost Efficiency

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

Strategic Utilisation of Renminbi Borrowing Funds for Internal Currency Risk Management

With the expansion of its banking facilities and the borrowing of funds from Mainland China, the strategic utilisation of Renminbi borrowing funds as an internal natural hedge demonstrates the CPM Group's prudent approach to managing currency risk. This internalisation of the hedging process reflects the CPM Group's forward-thinking financial strategy. The CPM Group is not only minimising the impact of currency fluctuations but it is also optimising its resource allocation. From a financial standpoint, this approach highlights the shrewd use of internal mechanisms in risk management, emphasising the CPM 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 CPM Group's financial position, aligning with the overarching goal of enhancing stakeholder's value and financial resilience.

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

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

Furthermore, the decision to implement a straight credit period and prepare for the potential legal proceedings demonstrates the CPM Group's commitment to proactive risk mitigation in response to the market dynamics. This strategic approach allows the CPM 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 CPM Group strengthens resilience and ensures operational continuity, positioning itself to manage fluctuations in customer payment patterns and market uncertainties effectively.

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

OTHER BUSINESSES

Equity Investments Designated at Fair Value Through Other Comprehensive Income

The Group owns 12.5% equity interest in Profitable Industries Limited ("Profitable Industries"), an investment holding company, which is in turn engaged in a cemetery project (the "Cemetery") situated in Sihui, Guangdong Province, Mainland China. The Cemetery is operated under the name of "Fortune Wealth Memorial Park" which is focused on the development, construction, management and operation of a cemetery. The Cemetery offers grave lots, ordinary columbarium niches and luxury columbarium niches. The other shareholder of Profitable Industries is Chuang's China Investments Limited ("Chuang's China"), a company listed on The Stock Exchange of Hong Kong Limited (stock code: 298). As a minority shareholder of Profitable Industries, the Group has not participated in the management of the Cemetery and is a passive minority shareholder of Profitable Industries.

As disclosed in the interim report of Chuang's China for the six months ended 30 September 2023, the Fortune Wealth Memorial Park is operated as a cemetery with a site area of approximately 518 mu agreed by the local government authorities. The development of the project is conducted by phases. Phase I of about 100 mu has been completed with 5,485 grave plots, one mausoleum providing 550 niches, as well as an administrative and customer service building. Development of the remaining 418 mu will be divided into Phase II to Phase V. For Phase II and Phase III, land use rights of approximately 143 mu have been obtained, which will accommodate a total of 22,212 grave plots. For Phase IV and Phase V, land use rights of approximately 5.2 mu had been obtained and additional land quota of about 119.8 mu shall be required for the construction of a total of about 14,514 grave plots. As for the 150 mu of road access and greenbelts, the Cemetery will ascertain the arrangement required by the local authorities. Site formation and construction works are in progress on parts of the land.

On the sale aspects, the Cemetery has full license for sale not only in Mainland China, but also includes overseas Chinese, as well as the residents of Hong Kong, Macau and Taiwan. The Cemetery will review its sales and marketing strategy and will take more proactive steps in its brand building and customer services.

The Group has engaged an independent professional appraisal firm to perform a valuation on the fair market value of Profitable Industries as at 31 December 2023 based on "Adjusted Net Asset Value" method which has considered, inter alia, property valuation of the Cemetery and a discount for the Group's minority holding in Profitable Industries. The fair market value of this equity investment as at 31 December 2023 was approximately HK$28.13 million when compared with approximately HK$36.87 million as at 31 December 2022.

Financial Assets at Fair Value Through Profit or Loss

Since 2021, the Group has allocated HK$10.00 million for the investment in listed securities. The Group has appointed an investment fund manager to operate a captive investment fund in order to take the advantage of professional analysis and expertise as well as the risk management in the global financial markets.

For the year ended 31 December 2023, the investment recorded a net loss on dealings in financial assets at fair value through profit or loss held for trading of approximately HK$0.15 million, as compared with the same of approximately HK$1.11 million for the year ended 31 December 2022. The net fair value losses on financial assets at fair value through profit or loss held for trading of approximately HK$0.34 million for the year ended 31 December 2022.

In view of the attractive time deposit interest rates offered by the banks in Hong Kong, the Group has put the remaining balance of approximately HK$7.08 million of the investment fund in Hong Kong dollar time deposits with certain banks/a bank in Hong Kong.

OUTLOOK

The directors of the Company believe that the global environment remains uncertain in 2024. The global economy continued to face a number of challenges, including the slow global economic growth coupled with the high interest rate environment, as well as the persistent geopolitical uncertainty and the negative spillovers from the conflicts in Ukraine and the Middle East.

The market expects a slowdown in both US economic growth and inflation and foresees a peak in the interest rates of US dollars and Hong Kong dollars and it is still expected that interest rates will remain at a high level for some time.

The economy in Mainland China remained sluggish and the liquidity challenges faced by some leading property developers in the PRC would continue and hence dampen the market sentiment.

The Hong Kong economy returned to positive growth in 2023 with the expectation of a swift recovery following the reopening of border with Mainland China. The gradual return of travellers for both business and leisure provided genuine support to the recovery of the local hospitality sector. The hotel business has resulted in steady improvement in the operating performance.

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

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

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

The directors of the Company notice that the property leasing markets for offices and residential properties will continue to be not entirely favourable in 2024. In addition, the defaulting debts of the property developers in Mainland China could further delay the prospect and the recovery of both the property market and the boarder Mainland China economy. The regulatory bodies of Mainland China have implemented a series of policies in late August 2023 to support the property market, including mortgage rates cuts, reducing restrictions on home transactions, and lowering the reserve requirement ratio. The measures were intended to help property developers and stabilise the market.

The Hong Kong Government scraped all property cooling measures and the relaxation of property mortgage loan regulations by the Hong Kong Monetary Authority in February 2024, it is expected that the removal of various stamp duties has potential to attract investors back into the property market.

For the property leasing market in Hong Kong, the demand for office space in Hong Kong is less likely to strongly rebound because of a number of reasons. Some companies have relocated its headquarters or regional offices to other places. Office expansion continues to tread along a prudent path, as it is affected by the growing popularity of hybrid workplace and improved IT infrastructure. The trend of remote working also reduces the demand for dedicated office space particularly in the prime business areas. However, small and medium-sized businesses may continue to use physical offices. The demand for commercial offices is therefore expected to gradually improve in the near future. Office leasing is expected to improve, so as the rental and return of investment properties during the rest of 2024.

The Group will constantly review its investment property portfolio and will act prudently in making any decision on the acquisition of investment properties for the purpose of generating a recurring income and cash flow for investment purposes.

FINANCIAL REVIEW

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

RESULTS

The Group recorded a loss attributable to the shareholders of the Company of approximately HK$68.58 million for the year, as compared to a loss attributable to the shareholders of approximately HK$94.08 million in 2022. Revenue for the year amounted to approximately HK$495.65 million, representing a decrease of 25.5%, as compared to approximately HK$665.59 million in 2022. Gross profit for the year amounted to approximately HK$174.58 million, representing an increase of 11.8%, as compared to the same in 2022. The gross profit margin increased by 11.7 percentage points from 23.5% in 2022 to 35.2% in 2023.

SEGMENT INFORMATION

Business Segments

Paint and Coating Products

Paint operation continued to contribute the largest revenue to the Group with revenue of approximately HK$448.48 million, accounting for 90.5% of the Group's total revenue. Segment revenue for the year decreased by 29.8%, as compared to the same in 2022. However, the paint and coating industry reported a decrease in overall total profit for the year 2023, attributing this to continued intense competition, price differentiation and reduced profit margins among manufacturers. Amid these challenges, the industry benefitted from decreasing production costs due to low international crude oil prices, resulting in lower raw material costs for paint and coating products. As a result, the gross profit margin increased by 8.8 percentage point from 21.7% in 2022 to 30.5% in 2023. Despite this improvement the segment loss for the year amounted to approximately HK$58.15 million, representing a significant decrease of 32.7%, as compared to segment loss of approximately HK$86.37 million in 2022. This segment loss was primarily attributable to the provision for impairment of trade and bills receivables of HK$50.13 million, in accordance with HKFRS 9, considering both historical credit loss experience and forward-looking information, as well as the probability of default approach under the market conditions in the property development and construction sectors.

In consideration of the prevailing market volatilities, the Group will continue to closely monitor market conditions, adopt a prudent approach in the procurement of raw materials and exercise strict control over the overheads to maintain the gross profit margin of the paint and coating products.

Property Investment

For the year ended 31 December 2023, revenue of the property investment business amounted to approximately HK$36.18 million, representing 7.3% of the Group's total revenue. Segment profit for the year amounted to approximately HK$1.32 million, as compared to the segment profit of approximately HK$7.78 million for the year ended 31 December 2022.

The significant decrease in the segmental profit was primarily due to the net fair value losses of approximately HK$30.56 million recorded on the investment properties held by the Group in Hong Kong and Mainland China as at 31 December 2023, as compared to the same of approximately HK$15.39 million as at 31 December 2022.

Hotel Business

For the year ended 31 December 2023, revenue of the hotel business amounted to approximately HK$11.00 million, representing 2.2% of the Group's total revenue. It had recorded a segmental profit for the year ended 31 December 2023 amounted to approximately HK$0.33 million, as compared to the segmental loss approximately HK$6.08 million for the year ended 31 December 2022.

Geographical Segments

The Group's businesses are operated in Mainland China and Hong Kong only. Revenue from operations in the Mainland China and Hong Kong for the year ended 31 December 2023 amounted to approximately HK$417.67 million (2022: approximately HK$582.21 million) and approximately HK$77.99 million (2022: approximately HK$83.38 million), respectively.

LIQUIDITY AND FINANCIAL INFORMATION

The business operation of the Group is principally financed by its internal financial resources and external bank borrowings. The cash and cash equivalents amounted to approximately HK$260.39 million as at 31 December 2023 as compared to approximately HK$386.87 million as at 31 December 2022. The decrease in the balance of cash and cash equivalents was primarily due to the repayment of bank borrowings and the change in working capital. The total cash and bank balances, including pledge deposits, amounted to approximately HK$359.39 million as at 31 December 2023 as compared to approximately HK$429.08 million as at 31 December 2022.

Bank borrowings amounted to approximately HK$171.45 million as at 31 December 2023 as compared to approximately HK$289.12 million as at 31 December 2022. The bank borrowings of the Group mainly bear interest at floating rates. The total bank borrowings of the Group as at 31 December 2023 amounted to approximately HK$171.45 million (100.0%) was payable within one year. The cash and bank balances and bank borrowings of the Group are mainly denominated in Hong Kong dollars and Renminbi. The results of the Group can be affected by movements in the exchange rate between Hong Kong dollars and Renminbi.

The Group did not have any hedging instrument to hedge the foreign currency exposure as at 31 December 2023. However, the Group will continue to monitor its foreign exchange exposure and requirements closely and arrange hedging facilities when necessary.

The gearing ratio of the Group, which is expressed as a percentage of total bank borrowings to shareholders' funds, was 13.0% as at 31 December 2023 as compared to 19.9% as at 31 December 2022. The liquidity ratio of the Group, which is expressed as a percentage of current assets to current liabilities, was 1.38 times as at 31 December 2023 as compared to 1.39 times as at 31 December 2022.

For the year under review, the inventory turnover days[1] in 2023 were 31 days (2022: 31 days). The trade and bills receivables turnover days[2] decreased from 203 days in 2022 to 128 days in 2023.

Equity, Net Asset Value and Shareholders' Funds

Shareholders' funds of the Group as at 31 December 2023 was approximately HK$1,323.30 million (31 December 2022: approximately HK$1,450.57 million). Net assets value per share as at 31 December 2023 was HK$0.76 (31 December 2022: HK$0.83). Shareholders' funds per share as at 31 December 2023 was HK$0.70 (31 December 2022: HK$0.76).

Contingent Liabilities

As at 31 December 2023 and 31 December 2022, no bank facilities granted to various subsidiaries subject to guarantees given to banks by the Company were utilised.

Pledge of Assets

Certain property, plant and equipment, investment properties, right-of-use assets and cash deposits with an aggregate net book value of approximately HK$553.11 million as at 31 December 2023, as compared to approximately HK$746.45 million as at 31 December 2022, and the shares of a subsidiary were pledged as collaterals for bank borrowings, lease liabilities, and bills payable and performance bonds.

As at 31 December 2023, the total outstanding secured bank borrowings amounted to approximately HK$131.01 million as compared to approximately HK$207.70 million as at 31 December 2022, lease liabilities amounted to approximately HK$0.06 million as at 31 December 2023 as compared to approximately HK$0.06 million as at 31 December 2022, and bills payable amounted to approximately HK$115.69 million as at 31 December 2023 as compared to approximately HK$134.66 million as at 31 December 2022.

1 The calculation of inventory turnover days is based on the closing balance of inventories divided by the cost of sales and multiplied by 365 days (31 December 2022: 365 days).

2 The calculation of trade and bills receivables turnover days is based on the closing balance of trade and bills receivables divided by the revenue and multiplied by 365 days (31 December 2022: 365 days).

TREASURY MANAGEMENT

Funding and Treasury Policy

The Group adopts a prudent approach in its funding and treasury policy, which aims at maintaining an optimal financial position for the Group and minimising 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 dollar, Renminbi and United States dollar. The Group's results can be affected by movements in the exchange rates between Hong Kong dollar, Renminbi and United States dollar. The Group did not have any hedging instrument to hedge the foreign currency exposure as at 31 December 2023. The Group will continue to monitor its foreign currency exposure and requirements closely and arrange hedging facilities when necessary.

Capital Expenditure

During the year ended 31 December 2023, the Group invested a total sum of approximately HK$4.00 million (2022: HK$23.16 million) in the acquisition of property, plant and equipment as well as product research and development centre.

HUMAN RESOURCES

As at 31 December 2023, the Group employed a total of 517 employees, as compared to 608 employees as at 31 December 2022. Staff costs (excluding directors' emoluments) amounted to approximately HK$105.06 million (including related equity-settled share-based payments of approximately HK$1.26 million) for the year ended 31 December 2023 as compared to approximately HK$135.51 million (including related equity-settled share-based payments of approximately HK$4.21 million) for the year ended 31 December 2022. The Group has a comprehensive and competitive staff remuneration and benefits system which is based on the performance of individual employees. In addition, the Group also provides a staff option scheme.

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, United States 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 makes its estimates based on the ageing of its receivable balances, debtors' creditworthiness, past payment history and historical write-off experience. If the financial condition of its debtors deteriorates which resulted in actual impairment loss that might be higher than expected, the Group would be required to revise the basis of making the allowance.

BUSINESS RISKS

Market Risks

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, adversely affecting 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, result in a loss of business. Every division and department in the Group is responsible for managing operational risks. There are sets of standard operating procedures, safety standards, limits of authority and reporting framework that guide key functions within the Group. As part of the management's risk management process, key operational exposures will be identified and assessed on a regular basis so that appropriate risk reduction steps can be taken.

ENVIRONMENTAL POLICIES AND PERFORMANCE

During the year ended 31 December 2023, the Group has carried out the following environmental works for the paint business of the Group with the aims of "Prevention First, Protect the Environment, Comply with Laws and Regulations, and Environmental Sustainability":

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

(2) disposal of hazardous solid waste via qualified waste disposal service providers;

(3) effective use of water and electricity; and

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 December 2023, as far as the Group is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

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

Save as disclosed above, there was no other significant investment acquired, nor was there any other material acquisitions or disposals of subsidiaries during the year ended 31 December 2023. The Board has not yet authorised any plan for other material investments or additions of capital assets.

EVENTS AFTER THE REPORTING DATE

There is no significant subsequent event after 31 December 2023.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

AUDIT COMMITTEE REVIEW

The audit committee of the Board has met the external auditors of the Company, Messrs. Ernst and Young ("EY"), and reviewed the Group's annual results for the year ended 31 December 2023.

SCOPE OF WORK OF PRELIMINARY RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITORS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by EY, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by EY on the preliminary announcement.

CORPORATE GOVERNANCE

The Board recognises the importance of and benefit from good corporate governance practices and has devoted considerable efforts to develop the best corporate governance practices appropriate to the business of the Group. For the year ended 31 December 2023, the Company has applied the principles and complied with the code provisions as set out in the Corporate Governance Code as contained in Part 2 of Appendix 14 (which has been reorganised as Appendix C1 with effect from 31 December 2023) to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 (which has been reorganised as Appendix C3 with effect from 31 December 2023) to the Listing Rules (the "Model Code"). After specific enquiry by the Company, all directors of the Company confirmed that they have complied with the required standard set out in the Model Code and the Company's own code during the year ended 31 December 2023.

On behalf of the Board
CNT Group Limited
Tsui Yam Tong, Terry
Chairman

Hong Kong, 27 March 2024

As at the date of this announcement, the Board comprises Mr. Tsui Yam Tong, Terry and Mr. Chong Chi Kwan as executive directors; Mr. Tsui Ho Chuen, Philip and Mr. Zhang Yulin as non-executive directors; and Mr. Ko Kwok Fai, Dennis, Mr. Huang De Rui, Mr. Zhang Xiaojing, Ms. Lin Yingru and Mr. Cheng Wai Po, Samuel as independent non-executive directors.