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**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 2011**

The directors of CNT Group Limited (the “Company”) announce the annual consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2011 together with comparative amounts for the corresponding period in 2010 as follows:

### **CONSOLIDATED INCOME STATEMENT**

*Year ended 31 December 2011*

	<i>Notes</i>	<b>2011</b> <b>HK\$'000</b>	2010 HK\$'000
REVENUE	4	<b>1,309,221</b>	1,246,634
Cost of sales		<u><b>(1,017,198)</b></u>	<u>(929,244)</u>
Gross profit		<b>292,023</b>	317,390
Other income and gains	4	<b>27,008</b>	12,840
Selling and distribution costs		<b>(142,538)</b>	(151,603)
Administrative expenses		<b>(113,018)</b>	(116,893)
Other expenses, net		<b>(7,460)</b>	(10,913)
Equity-settled share option expense		<b>(6,478)</b>	(11,871)
Fair value gains on investment properties, net		<b>13,785</b>	8,692
Finance costs	5	<b>(4,117)</b>	(6,092)
Share of profits and losses of associates		<u><b>2,506</b></u>	<u>3,572</u>
PROFIT BEFORE TAX	6	<b>61,711</b>	45,122
Income tax expenses	7	<u><b>(20,197)</b></u>	<u>(10,633)</u>
PROFIT FOR THE YEAR		<u><b>41,514</b></u>	<u>34,489</u>

	<i>Notes</i>	<b>2011</b> <b>HK\$'000</b>	2010 HK\$'000
PROFIT/(LOSS) ATTRIBUTABLE TO:			
Owners of the parent		<b>41,836</b>	34,865
Non-controlling interests		<u>(322)</u>	<u>(376)</u>
		<u><b>41,514</b></u>	<u>34,489</u>
EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE PARENT	9		
Basic and diluted		<u><b>HK2.22 cents</b></u>	<u>HK1.99 cents</u>

Details of the proposed dividend for the year are disclosed in note 8.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*Year ended 31 December 2011*

	2011 HK\$'000	2010 HK\$'000
PROFIT FOR THE YEAR	<u>41,514</u>	<u>34,489</u>
OTHER COMPREHENSIVE INCOME		
Gain on property revaluation	4,767	—
Share of other comprehensive income of an associate	1,315	—
Exchange differences on translation of foreign operations	<u>19,579</u>	<u>11,129</u>
OTHER COMPREHENSIVE INCOME FOR THE YEAR	<u>25,661</u>	<u>11,129</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>67,175</u>	<u>45,618</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:		
Owners of the parent	67,297	45,842
Non-controlling interests	<u>(122)</u>	<u>(224)</u>
	<u>67,175</u>	<u>45,618</u>

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*As at 31 December 2011*

	<i>Notes</i>	<b>2011</b> <b>HK\$'000</b>	2010 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>311,821</b>	309,784
Investment properties		<b>141,825</b>	138,444
Properties under development		<b>28,000</b>	28,000
Prepaid land lease payments		<b>23,034</b>	22,541
Intangible asset		<b>—</b>	1,300
Interests in associates		<b>10,734</b>	7,597
Available-for-sale investments		<b>125,783</b>	126,163
Deposits for purchases of items of property, plant and equipment		<b>9,384</b>	12,576
Net pension scheme assets		<b>2,531</b>	2,171
Deferred tax assets		<b>5,560</b>	—
Total non-current assets		<b>658,672</b>	648,576
<b>CURRENT ASSETS</b>			
Inventories		<b>81,160</b>	79,932
Trade and bills receivables	10	<b>292,287</b>	255,229
Prepayments, deposits and other receivables		<b>23,660</b>	13,902
Equity investment at fair value through profit or loss		<b>300</b>	174
Pledged deposits		<b>—</b>	1,956
Cash and cash equivalents		<b>319,476</b>	281,701
		<b>716,883</b>	632,894
Non-current assets classified as held for sale		<b>—</b>	20,126
Total current assets		<b>716,883</b>	653,020
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	11	<b>167,822</b>	171,896
Other payables and accruals		<b>127,708</b>	128,277
Due to an associate		<b>2,200</b>	1,900
Interest-bearing bank and other borrowings		<b>100,186</b>	106,125
Tax payable		<b>9,466</b>	6,013
Total current liabilities		<b>407,382</b>	414,211
<b>NET CURRENT ASSETS</b>		<b>309,501</b>	238,809

	<i>Notes</i>	<b>2011</b> <b>HK\$'000</b>	2010 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><b>968,173</b></u>	<u>887,385</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		<b>38,990</b>	44,745
Deferred tax liabilities		<b>22,206</b>	15,078
Deferred income		<b>4,168</b>	4,286
Provision		<u><b>24,764</b></u>	<u>—</u>
Total non-current liabilities		<u><b>90,128</b></u>	<u>64,109</u>
Net assets		<u><b>878,045</b></u>	<u>823,276</u>
EQUITY			
<b>Equity attributable to owners of the parent</b>			
Issued capital		<b>188,841</b>	188,841
Reserves		<u><b>685,494</b></u>	<u>630,603</u>
		<b>874,335</b>	819,444
<b>Non-controlling interests</b>		<u><b>3,710</b></u>	<u>3,832</u>
Total equity		<u><b>878,045</b></u>	<u>823,276</u>

## Notes to Consolidated Financial Statements

### 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 (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain buildings, an equity investment at fair value through profit or loss and net pension scheme assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

### 2.1. Changes in accounting policy and disclosures

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

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation — Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
<i>Improvements to HKFRSs 2010</i>	Amendments to a number of HKFRSs issued in May 2010

Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements.

## 2.2. Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following applicable new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> <sup>1</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Transfers of Financial Assets</i> <sup>1</sup>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities</i> <sup>4</sup>
HKFRS 9	<i>Financial Instruments</i> <sup>6</sup>
HKFRS 10	<i>Consolidated Financial Statements</i> <sup>4</sup>
HKFRS 11	<i>Joint Arrangements</i> <sup>4</sup>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> <sup>4</sup>
HKFRS 13	<i>Fair Value Measurement</i> <sup>4</sup>
HKAS 1 Amendments	<i>Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income</i> <sup>3</sup>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes — Deferred Tax: Recovery of Underlying Assets</i> <sup>2</sup>
HKAS 19 (2011)	<i>Employee Benefits</i> <sup>4</sup>
HKAS 27 (2011)	<i>Separate Financial Statements</i> <sup>4</sup>
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> <sup>4</sup>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> <sup>5</sup>
HK(IFRIC)-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

### 3. **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 products and related services;
- (b) the property investment segment comprises:
  - (i) the investment in residential and commercial premises for their rental income potential; and
  - (ii) the development and sale of properties;
- (c) the iron and steel trading segment comprises the trading of iron and steel products and related investments; and
- (d) the “others” segment comprises, principally, other trading and investment holding.

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

Segment assets exclude pledged deposits, cash and cash equivalents, deferred tax assets, net pension scheme assets and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, tax payable, deferred tax liabilities and other 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 2011**

	<b>Paint products HK\$'000</b>	<b>Property investment HK\$'000</b>	<b>Iron and steel trading HK\$'000</b>	<b>Others HK\$'000</b>	<b>Total HK\$'000</b>
<b>Segment revenue:</b>					
Sales to external customers	1,086,271	6,197	216,753	—	1,309,221
Intersegment sales	—	7,070	—	—	7,070
Other revenue	<u>7,047</u>	<u>30,109</u>	<u>1,125</u>	<u>652</u>	<u>38,933</u>
	1,093,318	43,376	217,878	652	1,355,224
<b><u>Reconciliation:</u></b>					
Elimination of intersegment sales					<u>(7,070)</u>
Total revenue					<u><u>1,348,154</u></u>
<b>Segment results</b>	44,485	33,855	3,410	(5,099)	76,651
<b><u>Reconciliation:</u></b>					
Elimination of intersegment results					7,744
Interest income					1,860
Finance costs					(4,117)
Equity-settled share option expense					(6,478)
Corporate and other unallocated expenses					<u>(13,949)</u>
Profit before tax					<u><u>61,711</u></u>
<b>Segment assets</b>	557,349	313,738	45,709	131,285	1,048,081
<b><u>Reconciliation:</u></b>					
Elimination of intersegment receivables					(1,222)
Corporate and other unallocated assets					<u>328,696</u>
Total assets					<u><u>1,375,555</u></u>
<b>Segment liabilities</b>	314,748	7,199	2,298	324	324,569
<b><u>Reconciliation:</u></b>					
Elimination of intersegment payables					(1,222)
Corporate and other unallocated liabilities					<u>174,163</u>
Total liabilities					<u><u>497,510</u></u>

**Year ended 31 December 2011**

	<b>Paint products HK\$'000</b>	<b>Property investment HK\$'000</b>	<b>Iron and steel trading HK\$'000</b>	<b>Others HK\$'000</b>	<b>Total HK\$'000</b>
<b>Other segment information:</b>					
Share of profits and losses of associates	—	1,242	2,878	(1,614)	2,506
Interests in associates	—	2,104	8,630	—	10,734
Depreciation	30,233	4,501	1	5	34,740
Corporate and other unallocated					107
					34,847
Amortisation of an intangible asset	—	—	—	150	150
Capital expenditure	35,486	832	—	17	36,335
Corporate and other unallocated					67
					36,402*
Fair value gains on investment properties, net	—	(13,785)	—	—	(13,785)
Impairment of an intangible asset	—	—	—	1,150	1,150
Impairment of an amount due from an associate	—	120	—	—	120
Provision for impairment of trade receivables	4,331	—	—	—	4,331
Write-down/(write-back) of inventories to net realisable value	(1,086)	—	—	145	(941)
	=====	=====	=====	=====	=====

**Year ended 31 December 2010**

	<b>Paint products HK\$'000</b>	<b>Property investment HK\$'000</b>	<b>Iron and steel trading HK\$'000</b>	<b>Others HK\$'000</b>	<b>Total HK\$'000</b>
<b>Segment revenue:</b>					
Sales to external customers	1,064,116	5,818	176,700	—	1,246,634
Intersegment sales	—	6,519	—	—	6,519
Other revenue	<u>3,357</u>	<u>12,546</u>	<u>3,794</u>	<u>245</u>	<u>19,942</u>
	1,067,473	24,883	180,494	245	1,273,095
<b><u>Reconciliation:</u></b>					
Elimination of intersegment sales					<u>(6,519)</u>
Total revenue					<u><u>1,266,576</u></u>
<b>Segment results</b>	65,376	15,370	8,034	(7,443)	81,337
<b><u>Reconciliation:</u></b>					
Elimination of intersegment results					7,162
Interest income					1,336
Dividend income					254
Finance costs					(6,092)
Equity-settled share option expense					(11,871)
Corporate and other unallocated expenses					<u>(27,004)</u>
Profit before tax					<u><u>45,122</u></u>
<b>Segment assets</b>	513,421	335,297	36,748	130,378	1,015,844
<b><u>Reconciliation:</u></b>					
Elimination of intersegment receivables					(1,022)
Corporate and other unallocated assets					<u>286,774</u>
Total assets					<u><u>1,301,596</u></u>
<b>Segment liabilities</b>	288,201	13,796	451	223	302,671
<b><u>Reconciliation:</u></b>					
Elimination of intersegment payables					(1,022)
Corporate and other unallocated liabilities					<u>176,671</u>
Total liabilities					<u><u>478,320</u></u>

**Year ended 31 December 2010**

	<b>Paint products HK\$'000</b>	<b>Property investment HK\$'000</b>	<b>Iron and steel trading HK\$'000</b>	<b>Others HK\$'000</b>	<b>Total HK\$'000</b>
<b>Other segment information:</b>					
Share of profits and losses of associates	—	1,278	4,436	(2,142)	3,572
Interests in associates	—	1,941	4,436	1,220	7,597
Depreciation	18,172	5,522	1	—	23,695
Corporate and other unallocated					115
					23,810
Amortisation of an intangible asset	—	—	—	150	150
Capital expenditure	44,075	1,319	4	3	45,401
Corporate and other unallocated					296
					45,697*
Fair value gains on investment properties, net	—	(8,692)	—	—	(8,692)
Impairment of an intangible asset	—	—	—	1,400	1,400
Impairment of available-for-sale investments	—	—	—	2,000	2,000
Impairment of an amount due from an associate	—	114	—	—	114
Reversal of impairment of trade receivables	(2,566)	—	—	—	(2,566)
Write-down of inventories to net realisable value	1,028	—	—	—	1,028
Recovery of amounts due from an associate previously written off	—	—	(3,131)	—	(3,131)

\* Capital expenditure consists of additions to property, plant and equipment, deposits for purchases of items of property, plant and equipment, properties under development and investment properties.

**Geographical information:****(a) Revenue from external customers**

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>92,549</b>	99,465
Mainland China	<b>1,216,455</b>	1,146,695
Other countries	<u><b>217</b></u>	<u>474</u>
	<u><b>1,309,221</b></u>	<u>1,246,634</u>

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

**(b) Non-current assets**

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>300,829</b>	307,077
Mainland China	<b>223,891</b>	212,909
Other countries	<u><b>78</b></u>	<u>256</u>
	<u><b>524,798</b></u>	<u>520,242</u>

The non-current asset information above is based on the location of assets and excludes deferred tax assets, financial instruments and post-employment benefit assets.

No sales to a single customer accounted for 10% or more of the total revenue of the Group for the years ended 31 December 2010 and 2011.

#### 4. Revenue, other income and gains

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

	2011 HK\$'000	2010 HK\$'000
<b>Revenue</b>		
Sale of paint products and related services	1,086,271	1,064,116
Sale of iron and steel products	216,753	176,700
Gross rental income from investment properties	6,197	5,818
	<u>1,309,221</u>	<u>1,246,634</u>
<b>Other income</b>		
Bank interest income	1,860	1,336
Dividend income from an available-for-sale investment	—	251
Dividend income from an equity investment at fair value through profit or loss	—	3
Commission income	658	219
Government grants received from Mainland China authorities	4,158	1,399
Recognition of deferred income	308	332
Others	3,645	3,199
	<u>10,629</u>	<u>6,739</u>
<b>Gains</b>		
Fair value gain on an equity investment at fair value through profit or loss - held for trading	126	88
Gain on disposal of non-current assets classified as held for sale	6,400	—
Gain on disposal of a subsidiary	9,853	—
Recovery of amounts due from an associate previously written off	—	3,131
Foreign exchange differences, net	—	2,882
	<u>16,379</u>	<u>6,101</u>
Total other income and gains	<u>27,008</u>	<u>12,840</u>

5. **Finance costs**

	2011 HK\$'000	2010 HK\$'000
Interest on:		
Bank loans and other loans wholly repayable within five years	3,920	4,919
Bank loans not wholly repayable within five years	792	1,243
Finance leases	<u>32</u>	<u>87</u>
	4,744	6,249
Less: Interest capitalised	<u>(627)</u>	<u>(157)</u>
	<u><u>4,117</u></u>	<u><u>6,092</u></u>

6. **Profit before tax**

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

	2011 HK\$'000	2010 HK\$'000
Cost of inventories sold	1,016,862	927,061
Cost of services provided	336	2,183
Depreciation	34,847	23,810
Amortisation of an intangible asset	150	150
Loss on disposal of items of property, plant and equipment, net	1,496	3,083
Write-off of items of property, plant and equipment	2,047	4,207
Impairment of an intangible asset	1,150	1,400
Impairment of available-for-sale investments	—	2,000
Impairment of an amount due from an associate	120	114
Write-down/(write-back) of inventories to net realisable value	(941)	1,028
Provision for/(reversal of) impairment of trade receivables	<u><u>4,331</u></u>	<u><u>(2,566)</u></u>

## 7. Income tax

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2011 HK\$'000	2010 HK\$'000
Group:		
Current - Hong Kong		
Charge for the year	42	—
Current - Elsewhere		
Charge for the year	18,324	12,074
Underprovision/(overprovision) in prior years	263	(1,635)
Deferred	<u>1,568</u>	<u>194</u>
Total tax charge for the year	<u>20,197</u>	<u>10,633</u>

The share of tax attributable to associates amounting to HK\$1,513,000 (2010: HK\$188,000) is included in “Share of profits and losses of associates” on the face of the consolidated income statement.

## 8. Dividend

	2011 HK\$'000	2010 HK\$'000
Proposed final - HK0.5 cent (2010: HK1 cent) per ordinary share	<u>9,442</u>	<u>18,884</u>

At the annual general meeting held on 28 June 2011, the Company's shareholders approved the distribution of the final dividend for the year ended 31 December 2010 of HK1 cent per share which amounted to approximately HK\$18,884,000.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The actual amount will be accounted for as an appropriation of the distributable reserves in the year ending 31 December 2012.

## 9. Earnings per share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$41,836,000 (2010: HK\$34,865,000), and the weighted average number of ordinary shares of 1,888,405,690 (2010: 1,753,026,835) in issue during the year.

No adjustment has been made to the basic earnings per share amount presented for the years ended 31 December 2011 and 2010 in respect of a potential dilution as the exercise prices of the outstanding share options granted by the Company were higher than the average market price of the shares of the Company during these years, and accordingly, the share options had an anti-dilutive effect on the basic earnings per share amounts presented.

There were no other diluting events existed during the years ended 31 December 2010 and 2011.



#### 10. Trade and bills receivables

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The 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 outstanding 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 relate to a large number of diversified customers and reputable banks, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables (that are not considered to be impaired), as at the end of the reporting period, based on the payment due date and net of impairment, is as follows:

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Neither past due nor impaired	<b>246,520</b>	221,617
Within three months	<b>40,523</b>	27,662
Over three months and within six months	<b>4,547</b>	3,133
Over six months	<b>697</b>	2,817
	<b><u>292,287</u></b>	<u>255,229</u>

#### 11. Trade and bills payables

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

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Within three months	<b>164,936</b>	169,769
Over three months and within six months	<b>2,872</b>	2,123
Over six months	<b>14</b>	4
	<b><u>167,822</u></b>	<u>171,896</u>

The trade payables are unsecured, non-interest-bearing and are normally settled on 60-day (2010: 60-day) terms.

## **DIVIDEND**

The directors have resolved to recommend the payment of a final dividend of HK0.5 cent per share (2010: HK1 cent) to the shareholders. The final dividend, if approved by the shareholders at the forthcoming annual general meeting, will be paid on Wednesday, 29 August 2012 to the shareholders whose names appear on the Company's register of members on Friday, 20 July 2012.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Thursday, 19 July 2012 to Friday, 20 July 2012, both days inclusive, during the period no transfer of shares will be effected. In order to qualify for the proposed final dividend, 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 18 July 2012.

## **CHAIRMAN'S STATEMENT**

In 2011, the Group faced a challenging operating environment resulting from tightened national momentary policies adopted by the Chinese Government in Mainland China. These had caused great pressure to the operating environment of manufacturing industry. In addition, the persistently high price level of raw material costs throughout the year put a significant impact on the production costs which rendered a lower gross profit margin in 2011 when compared with last year. Nevertheless, the implementation of cost control measures to reduce those controllable administrative expenses as well as selling and distribution costs lessened the impact of the drop in gross profit of the Group.

## **RESULTS**

The Group recorded a profit attributable to the shareholders of the Company for the year was approximately HK\$41.84 million, representing an increase of approximately 20.0% when compared with that of last year.

Revenue for the year amounted to approximately HK\$1,309.22 million, an increase of approximately HK\$62.59 million when compared with last year. Gross profit decreased by approximately 8.0% when compared with that of last year to approximately HK\$292.02 million. The drop was mainly due to the increase in raw material costs of paint products.

## **OPERATIONS**

### **Paint Products**

Revenue for the year amounted to approximately HK\$1,086.27 million, representing an increase of approximately 2.1% when compared with that of last year. The operation focused its business on Mainland China market and achieved an increase of approximately 3.1% in revenue over that of 2010. The Group will continue to focus on Mainland China market. Operating profit for the year amounted to approximately HK\$44.49 million representing a decrease of approximately HK\$20.89 million when compared with that of last year. The persistently high level of raw material costs during 2011 rendered the drop in gross profit margin.

The Group's first phase of new manufacturing lines through the factory and buildings to be constructed on our existing land located in Xinfeng, Zhongguo, the PRC is expected to commence its trial production in the second half of 2012. As the factory in Xinfeng will be constructed in different phases, the production facilities in existing factory located in Shajing, Shenzhen will be relocated to Xinfeng in different stages according to the time of completion of different phases in coming years.

During the year, the Group incurred capital expenditure of approximately HK\$28.40 million for the construction costs in respect of the production plant in Xinfeng. The Group believes that the new manufacturing lines would enable the Group to enhance its overall production capacity and to effectively control its manufacturing and production costs to cope with the future business expansion of the Group.

### **Property Investment**

Revenue for the year amounted to approximately HK\$6.20 million, representing an increase of approximately 6.5% when compared with that of last year. Operating profit for the year amounted to approximately HK\$33.86 million when compared with that of approximately HK\$15.37 million last year. In addition to the gain on disposal of the property in Taiwan of approximately HK\$6.40 million, the Group had also disposed its wholly owned subsidiary which held the investment property located in Mui Wo, New Territories, Hong Kong to capture the capital gain of approximately HK\$9.85 million.

The Group has submitted an application under Section 16 of Town Planning Ordinance to seek Town Planning Board's ("TPB") approval for a proposed columbarium on the Group's existing land located in Au Tau, Yuen Long, Hong Kong. During the public inspection and departmental consultation period, a number of

comments from the public and relevant government departments were received by the TPB. In response to the public and departmental comments, the Group has further submitted improved layout and technical assessments in support of the development proposal for TPB's consideration.

### **Iron and Steel Trading and Related Investments**

Revenue for the year amounted to approximately HK\$216.75 million, representing an increase of approximately 22.7% when compared with that of last year. Operating profit for the year amounted to approximately HK\$3.41 million as compared with that of approximately HK\$8.03 million last year.

### **Available-for-sale Investments**

The Group has an effective interest of 11.7% in the cemetery project situated in Sihui, Guangdong Province, the PRC. The principal activities of which are the development, construction, management and operation of a cemetery. The main types of products for the cemetery are outdoor grave lots, ordinary columbarium niches and luxury columbarium niches. There are two sales offices established in Hong Kong and five sales offices established in South China region for marketing purpose. Promotion campaigns have been launched to build up awareness among target elderly.

## **OUTLOOK**

Looking ahead, the operating environment for the Group in 2012 will be challenging but full of opportunities. According to the Chinese government's 12th Five Year Plan, the urbanisation rate of Mainland China is expected to increase in coming years. The continuous advancement of the urbanisation is expected to translate into a strong demand for paint products. The Group will actively seize opportunities brought by the accelerated urbanisation and improved living standards.

Furthermore, the Group will continuously strive to improve its staff efficiency, process optimisation as well as information and logistic systems enhancement in order to achieve optimal operating efficiency. In addition, the Group will continue to focus on improving the quality of its products and services and enhancing its sales and marketing policy to cater for the needs of different customers in various tiers of cities.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **RESULTS**

The Group recorded a profit attributable to the shareholders of the Company of approximately HK\$41.84 million for the year when compared with that of approximately HK\$34.87 million last year. Revenue for the year amounted to approximately HK\$1,309.22 million, representing an increase of approximately 5.0% when compared with that of last year. Gross profit for the year amounted to approximately HK\$292.02 million, representing a decrease of approximately 8.0% when compared with that of last year. The decrease in gross profit was mainly due to the increase in raw material costs during the year.

### **SEGMENT INFORMATION**

#### **Business segments**

Paint operation continued to be the principal business of the Group with a revenue of approximately HK\$1,086.27 million accounting for approximately 83.0% of the Group's total revenue. It also represented an increase of approximately 2.1% when compared with that of last year. Despite the increase in revenue, the decrease in gross profit for the year rendered segment result for the year amounted to approximately HK\$44.49 million representing a decrease of approximately 32.0% when compared with that of last year. This was mainly due to the increase in raw material costs during the year.

Property investment operation reported a revenue of approximately HK\$6.20 million, accounting for approximately 0.5% of the Group's total revenue. Segment result for the year amounted to a profit of approximately HK\$33.86 million when compared with that of approximately HK\$15.37 million last year. The increase in operating profit for the year was mainly due to the recognition of gain on disposal of a property and a subsidiary of approximately HK\$16.25 million.

Iron and steel operation reported a revenue of approximately HK\$216.75 million, accounting for approximately 16.6 % of the Group's total revenue. Segment result for the year amounted to a profit of approximately HK\$3.41 million compared with that of approximately HK\$8.03 million last year. The decrease in operating profit for the year was mainly due to the decrease in share of profit from an associate.

#### **Geographical segments**

All of the Group's business is mainly in Mainland China and Hong Kong. Revenue from operations in Mainland China and Hong Kong amounted to approximately HK\$1,216.46 million (2010: HK\$1,146.70 million) and approximately HK\$92.55 million (2010: HK\$99.47 million) respectively.

## **LIQUIDITY AND FINANCIAL INFORMATION**

The Group's business operation was generally financed by its internal funding and bank borrowings. Total cash balances amounted to approximately HK\$319.48 million as at 31 December 2011 compared with approximately HK\$283.66 million as at 31 December 2010. Bank and other borrowings amounted to approximately HK\$139.18 million as at 31 December 2011 compared with approximately HK\$150.87 million as at 31 December 2010. The Group's bank and other borrowings mainly carried interest at floating rates. Of the Group's total bank and other borrowings as at 31 December 2011, approximately HK\$100.19 million (72.0%) was payable within one year, approximately HK\$5.60 million (4.0%) was payable in the second year, approximately HK\$17.28 million (12.4%) was payable in the third to fifth years and the remaining balance of HK\$16.11 million (11.6%) was payable beyond the fifth year.

The Group's cash, bank balances and bank and other borrowings were mainly denominated in Hong Kong Dollars and Renminbi. The Group's results can be affected by movements in the exchange rate between Hong Kong Dollars and Renminbi. However, in view of the strong and supportive treasury policy in Mainland China, the Renminbi exchange rate is expected to remain relatively stable and hence the Group's currency exposure is not significant. The Group considers that no hedging measures are necessary.

Gearing ratio of the Group which expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 17.1% as at 31 December 2011 compared with 19.7% as at 31 December 2010. Liquidity ratio of the Group which expressed as a percentage of current assets to current liabilities was 1.76 times as at 31 December 2011 compared with 1.58 times as at 31 December 2010.

### **Equity and net assets value**

Shareholders' funds of the Group as at 31 December 2011 was approximately HK\$874.34 million compared with approximately HK\$819.44 million as at 31 December 2010. Adjusted capital of the Group, being shareholders' funds less the unrealized leasehold land and building revaluation reserve and investment property revaluation reserve, as at 31 December 2011 was approximately HK\$814.28 million compared with approximately HK\$764.16 million as at 31 December 2010. Net assets value per share as at 31 December 2011 was HK\$0.46 compared with HK\$0.44 as at 31 December 2010.

## **Contingent liabilities**

At 31 December 2011, guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 31 December 2011 amounted to HK\$68.80 million compared with HK\$63.86 million as at 31 December 2010.

## **Pledge of assets**

Certain land and buildings, investment properties, trade receivables and cash deposits with aggregate net book value of HK\$492.32 million as at 31 December 2011 (31 December 2010: HK\$486.15 million) were pledged as collaterals for bank and other borrowings. At 31 December 2011, total outstanding secured bank and other borrowings amounted to HK\$126.85 million as compared with HK\$125.04 million as at 31 December 2010.

## **STAFF**

Headcount as at 31 December 2011 was 1,156 (31 December 2010: 1,263). Staff costs (excluding directors' emoluments) amounted to HK\$157.73 million for the year as compared with HK\$144.93 million last year. The Group has a comprehensive and competitive staff remuneration and benefits system which is formulated on the performance of individual employees. In addition, the Group also provides an attractive staff option scheme.

## **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 annual consolidated results of the Group for the year ended 31 December 2011 have been reviewed by the audit committee.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the year ended 31 December 2011, except that the non-executive directors are not appointed for a specific term. According to the Company's bye-laws, the non-executive directors are subject to re-election at least once every three years.

On behalf of the board  
**Lam Ting Ball, Paul**  
*Chairman*

Hong Kong, 29 March 2012

*The board of directors of the Company as at the date hereof comprises Messrs. Lam Ting Ball, Paul, Tsui Ho Chuen, Philip, Tsui Yam Tong, Terry and Chong Chi Kwan as executive directors; Messrs. Chan Wa Shek, Hung Ting Ho, Richard, Zhang Yulin and Ko Sheung Chi as non-executive directors; Sir David Akers-Jones, Mr. Danny T Wong and Dr. Steven Chow as independent non-executive directors; and Mr. Chong Shaw Swee, Alan (alternate to Mr. Hung Ting Ho, Richard) as alternate director.*