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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 2011 INTERIM RESULTS

INTERIM RESULTS

The board of directors of CNT Group Limited (the “Company”) presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2011 together with comparative amounts for the corresponding period in 2010. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
	Notes	(Unaudited) HK\$'000	(Unaudited) HK\$'000
REVENUE		575,671	517,301
Cost of sales		<u>(457,701)</u>	<u>(385,229)</u>
Gross profit		117,970	132,072
Other income and gains	3	10,646	1,685
Selling and distribution costs		(55,087)	(69,382)
Administrative expenses		(50,963)	(61,778)
Other expenses, net		<u>(2,237)</u>	<u>(575)</u>
		20,329	2,022
Equity-settled share option expense	12	(3,825)	(7,813)
Finance costs	4	(2,213)	(2,895)
Share of profits and losses of associates		<u>1,422</u>	<u>147</u>
PROFIT/(LOSS) BEFORE TAX	5	15,713	(8,539)
Income tax expenses	6	<u>(5,307)</u>	<u>(5,647)</u>
PROFIT/(LOSS) FOR THE PERIOD		<u>10,406</u>	<u>(14,186)</u>
PROFIT/(LOSS) ATTRIBUTABLE TO:			
Owners of the parent		10,451	(14,044)
Non-controlling interests		<u>(45)</u>	<u>(142)</u>
		<u>10,406</u>	<u>(14,186)</u>
EARNINGS/(LOSS) PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE PARENT			
Basic and diluted	7	<u>HK0.55 cents</u>	<u>(HK0.87 cents)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PROFIT/(LOSS) FOR THE PERIOD	<u>10,406</u>	<u>(14,186)</u>
OTHER COMPREHENSIVE INCOME		
Gain on property revaluation	4,767	—
Share of other comprehensive income of an associate	916	—
Exchange differences on translation of foreign operations	<u>8,463</u>	<u>3,526</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD	<u>14,146</u>	<u>3,526</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u><u>24,552</u></u>	<u><u>(10,660)</u></u>
TOTAL COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:		
Owners of the parent	24,501	(10,566)
Non-controlling interests	<u>51</u>	<u>(94)</u>
	<u><u>24,552</u></u>	<u><u>(10,660)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2011

	Notes	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	304,591	309,784
Investment properties		148,175	138,444
Properties under development		28,000	28,000
Prepaid land lease payments		22,776	22,541
Intangible asset		1,225	1,300
Interests in associates		9,488	7,597
Available-for-sale investments		125,763	126,163
Deposits for purchases of items of property, plant and equipment		12,678	12,576
Net pension scheme assets		2,171	2,171
Total non-current assets		654,867	648,576
CURRENT ASSETS			
Inventories		115,523	79,932
Trade and bills receivables	10	205,564	255,229
Prepayments, deposits and other receivables		19,122	13,902
Equity investment at fair value through profit or loss		318	174
Pledged deposits		662	1,956
Cash and cash equivalents		265,784	281,701
		606,973	632,894
Non-current assets classified as held for sale		—	20,126
Total current assets		606,973	653,020
CURRENT LIABILITIES			
Trade and bills payables	11	152,486	171,896
Other payables and accruals		92,338	128,277
Dividend payable		18,884	—
Due to an associate		1,900	1,900
Interest-bearing bank and other borrowings		96,782	106,125
Tax payable		5,653	6,013
Total current liabilities		368,043	414,211
NET CURRENT ASSETS		238,930	238,809
TOTAL ASSETS LESS CURRENT LIABILITIES		893,797	887,385

	Notes	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		41,723	44,745
Deferred tax liabilities		15,078	15,078
Deferred income		4,227	4,286
Total non-current liabilities		<u>61,028</u>	<u>64,109</u>
Net assets		<u>832,769</u>	<u>823,276</u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		188,841	188,841
Reserves		<u>640,045</u>	<u>630,603</u>
		828,886	819,444
Non-controlling interests		<u>3,883</u>	<u>3,832</u>
Total equity		<u>832,769</u>	<u>823,276</u>

Notes to the Condensed Consolidated Financial Statements

1. Basis for preparation and accounting policies

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2010, except that the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA are adopted for the first time for the current period’s unaudited condensed consolidated interim 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>
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

The adoption of these new and revised HKFRSs has had no significant financial effect on these unaudited condensed consolidated interim financial statements and there have been no significant changes to the accounting policies applied in these unaudited condensed consolidated interim financial statements.

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these unaudited condensed consolidated interim 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> ¹
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures - Transfers of Financial Assets</i> ¹
HKFRS 9	<i>Financial Instruments</i> ⁴
HKFRS 10	<i>Consolidated Financial Statements</i> ⁴
HKFRS 11	<i>Joint Arrangements</i> ⁴
HKFRS 12	<i>Disclosures of Interests in Other Entities</i> ⁴
HKFRS 13	<i>Fair Value Measurement</i> ⁴
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i> ³
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes - Deferred Tax: Recovery of Underlying Assets</i> ²
HKAS 19 Amendments	Amendments to HKAS 19 <i>Employee Benefits</i> ⁴
HKAS 27 (Revised)	<i>Separate Financial Statements</i> ⁴
HKAS 28 (Revised)	<i>Investments in Associates and Joint Ventures</i> ⁴

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2013

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 the Group's results of operations and financial position.

These unaudited condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2010.

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 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, securities trading and investment.

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, finance costs, as well as head office and corporate expenses are excluded from such measurement.

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

Intersegment sales and transfers are transacted on mutually agreed terms.

The following tables present revenue and profit/(loss) information for the Group's reportable operating segments for the six months ended 30 June 2011 and 2010.

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Iron and steel trading (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Six months ended 30 June 2011					
Segment revenue:					
Sales to external customers	449,653	3,070	122,948	—	575,671
Intersegment sales	—	3,406	—	—	3,406
Other income and gains	2,236	6,412	592	527	9,767
	451,889	12,888	123,540	527	588,844
<u>Reconciliation:</u>					
Elimination of intersegment sales					(3,406)
Total revenue					585,438
Segment results	19,418	6,765	2,622	(1,114)	27,691
<u>Reconciliation:</u>					
Elimination of intersegment results					3,815
Interest income					879
Finance costs					(2,213)
Equity-settled share option expense					(3,825)
Corporate and other unallocated expenses					(10,634)
Profit before tax					15,713
Six months ended 30 June 2010					
Segment revenue:					
Sales to external customers	449,441	2,833	65,027	—	517,301
Intersegment sales	—	3,694	—	—	3,694
Other income and gains	1,078	—	324	48	1,450
	450,519	6,527	65,351	48	522,445
<u>Reconciliation:</u>					
Elimination of intersegment sales					(3,694)
Total revenue					518,751
Segment results	12,584	1,954	(84)	(953)	13,501
<u>Reconciliation:</u>					
Elimination of intersegment results					3,368
Interest income					235
Finance costs					(2,895)
Equity-settled share option expense					(7,813)
Corporate and other unallocated expenses					(14,935)
Loss before tax					(8,539)

The following tables present segment assets of the Group's reportable operating segments as at 30 June 2011 and 31 December 2010.

	Paint products (Unaudited) HK\$'000	Property investment (Unaudited) HK\$'000	Iron and steel trading (Unaudited) HK\$'000	Others (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
As at 30 June 2011					
Segment assets	515,147	317,478	30,838	130,100	993,563
Reconciliation:					
Elimination of intersegment receivables					(1,222)
Corporate and other unallocated assets					269,499
Total assets					1,261,840

	Paint products (Audited) HK\$'000	Property investment (Audited) HK\$'000	Iron and steel trading (Audited) HK\$'000	Others (Audited) HK\$'000	Total (Audited) HK\$'000
As at 31 December 2010					
Segment assets	513,421	335,297	36,748	130,378	1,015,844
Reconciliation:					
Elimination of intersegment receivables					(1,022)
Corporate and other unallocated assets					286,774
Total assets					1,301,596

During the six months ended 30 June 2011, revenue generated from one of the Group's customers in the iron and steel trading segment amounting to approximately HK\$62,341,000 individually accounted for over 10% of the Group's revenue. No revenue from any single customer accounted for 10% or more of the total revenue of the Group for the six months ended 30 June 2010.

3. Other income and gains

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Bank interest income	879	235
Commission income	359	91
Government grants received from Mainland China authorities	710	99
Fair value gain on an equity investment at fair value through profit or loss - held for trading	144	—
Gain on disposal of non-current assets classified as held for sale	6,400	—
Recognition of deferred income	152	146
Others	2,002	1,114
	<u>10,646</u>	<u>1,685</u>

4. Finance costs

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on:		
Bank loans and other loans wholly repayable within five years	1,747	2,174
Bank loans not wholly repayable within five years	445	669
Finance leases	21	52
	<u>2,213</u>	<u>2,895</u>

5. Profit/(loss) before tax

Profit/(loss) before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	457,701	385,229
Depreciation	11,321	11,948
Impairment/(write-back of impairment) of trade receivables	2,151	(1,366)
Write-down of inventories to net realisable value	1,261	1,378

6. Income tax

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

The share of tax attributable to associates amounting to HK\$256,000 (2010: HK\$80,000) is included in “Share of profits and losses of associates” on the face of the condensed consolidated income statement.

7. Earnings/(loss) per share attributable to ordinary equity holders of the parent

The calculation of basic earnings/(loss) per share amount is based on the profit for the six months ended 30 June 2011 attributable to ordinary equity holders of the parent of HK\$10,451,000 (six months ended 30 June 2010: loss of HK\$14,044,000) and the weighted average number of ordinary shares of 1,888,405,690 (six months ended 30 June 2010: 1,615,404,131) in issue during the period.

No adjustment has been made to the basic earnings per share amount presented for the six months ended 30 June 2011 in respect of a potential dilution as the exercise price of the outstanding share options granted by the Company was higher than the average market price of the shares of the Company during the period, and accordingly, the share options had no potential dilutive effect.

There was no other diluting events existed during the six months ended 30 June 2011 and 2010.

8. Dividend

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 (six months ended 30 June 2010: Nil).

9. Property, plant and equipment

During the six months ended 30 June 2011, the Group acquired items of property, plant and equipment at costs of HK\$7,985,000 (six months ended 30 June 2010: HK\$13,625,000).

Items of property, plant and equipment with an aggregate net book value of HK\$257,000 (six months ended 30 June 2010: HK\$889,000) were disposed of by the Group during the six months ended 30 June 2011, resulting in a net loss on disposal of HK\$35,000 (six months ended 30 June 2010: HK\$18,000).

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. 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 payment due date and net of impairment, is as follows:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Neither past due nor impaired	163,205	221,617
Within three months	37,153	27,662
Over three months and within six months	4,003	3,133
Over six months	1,203	2,817
	<u>205,564</u>	<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:

	30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
Within three months	149,142	169,769
Over three months and within six months	3,323	2,123
Over six months	21	4
	<u>152,486</u>	<u>171,896</u>

The trade payables are non-interest-bearing and are normally settled on 60-day terms.

12. Share option scheme

On 27 May 2010, 152,800,000 share options to subscribe for a total of 152,800,000 new ordinary shares of the Company of HK\$0.10 each were granted under the share option scheme approved by the shareholders of the Company on 28 June 2002 (the “2002 Scheme”). The 2002 Scheme was adopted by the Company for the purpose of providing incentives to attract and retain employees of the Group, as well as other eligible persons, who made contributions to the Group. Unless terminated by resolution in general meeting or by the board of directors, the 2002 Scheme shall be valid and effective for a period of 10 years commencing on 28 June 2002, after which period no further options will be issued but, in all other respects, the provisions of the 2002 Scheme shall remain in full force and effect.

The equity-settled share options granted on 27 May 2010 vest over a period of four years from the grant date, of which 50% of the share options vested immediately on the grant date, 10% of the share options vesting on 27 May 2011, 10% of the share options vesting on 27 May 2012, 10% of the share options vesting on 27 May 2013 and 20% of the share options vesting on 27 May 2014. These share options are exercisable at HK\$0.44 per share and must be exercised within five years from the grant date, and if not so exercised, the share options shall lapse. These share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

None of the share options granted during 2010 under the 2002 Scheme were exercised, cancelled or lapsed during the six months ended 30 June 2011 and 2010. No share option was granted during the six months ended 30 June 2011.

The fair value of the share options granted on 27 May 2010 was HK\$26,302,000 of which the Group recognised a share option expense of HK\$3,825,000 during the six months ended 30 June 2011 (six months ended 30 June 2010: HK\$7,813,000).

INTERIM DIVIDEND

The directors of the Company have resolved not to declare any interim dividend for the year ending 31 December 2011 (2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2011, the persistently high level of raw material costs further reduced the gross profit margin of the Group. However, as a result of the implementation of cost control measures to reduce those controllable administrative expenses as well as selling and distribution costs, the Group recorded a profit attributable to the shareholders of the Company of approximately HK\$10.45 million for the six months ended 30 June 2011 as compared with a loss of approximately HK\$14.04 million for the last corresponding period.

The Group recorded revenue of approximately HK\$575.67 million representing an increase of 11.3% when compared with that of last period. The Group's gross profit for the period decreased by 10.7% when compared with that of last period to approximately HK\$117.97 million was mainly due to the increase in raw material costs during the period under review.

The manufacturing and sale of paint products continued to be the core business of the Group. Its weight in the total revenue was approximately 78.1% for the period under review.

Paint products

Revenue for the period amounted to approximately HK\$449.65 million which was nearly same as last period. The increase in raw material costs rendered the drop in gross profit when compared with that of last period. However, as a result of the cost reduction in administrative expenses and selling and distribution costs, the operating profit was improved to approximately HK\$19.42 million, representing an increase of approximately 54.3% when compared with that of last period.

Property investment

Revenue for the period amounted to approximately HK\$3.07 million when compared with that of approximately HK\$2.83 million last period. Operating profit amounted to approximately HK\$6.77 million, compared with that of approximately HK\$1.95 million last period. The increase in operating profit for the period was mainly due to the recognition of gain on disposal of property in Taiwan of approximately HK\$6.40 million.

Iron and steel trading and related investments

Revenue for the period amounted to approximately HK\$122.95 million, representing an increase of approximately 89.1% when compared with that of last period. Due to the increase in revenue, the operating profit for the period amounted to approximately HK\$2.62 million, when compared with a loss of HK\$84 thousand of last period.

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 of the cemetery are outdoor grave lots, ordinary columbarium niches and special columbarium niches. There are six sales offices established in Hong Kong, Guangzhou, Foshan, Zhaoqing and Sihui for marketing purpose. Promotion campaigns have been launched, including regular visits of the cemetery and blessing ceremonies in the cemetery to boost the publicity.

FINANCIAL REVIEW

Liquidity and financial information

The Group's business operation is generally financed by its internal funding and bank borrowings. Total cash balances amounted to approximately HK\$266.45 million as at 30 June 2011 compared with approximately HK\$283.66 million as at 31 December 2010. Bank and other borrowings amounted to approximately HK\$138.51 million as at 30 June 2011 compared with approximately HK\$150.87 million as at 31 December 2010. The Group's bank and other borrowings mainly bear interest at floating rates. Of the Group's total bank and other borrowings as at 30 June 2011, approximately HK\$96.78 million (69.9%) is payable within one year, approximately HK\$5.57 million (4.0%) is payable in the second year, approximately HK\$17.17 million (12.4%) is payable in the third to fifth years and the remaining balance of HK\$18.99 million (13.7%) is 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 result 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 is expressed as a percentage of total bank and other borrowings to adjusted capital (as defined below) was 18.0% as at 30 June 2011 compared with 19.7% as at 31 December 2010. Liquidity ratio of the Group which is expressed as a percentage of current assets to current liabilities was 1.65 times as at 30 June 2011 compared with 1.58 times as at 31 December 2010.

Equity and net asset value

Shareholders' funds of the Group as at 30 June 2011 was approximately HK\$828.89 million compared with approximately HK\$819.44 million as at 31 December 2010. Adjusted capital of the Group, being shareholders' funds less the unrealised leasehold land and building revaluation reserve and investment property revaluation reserve, as at 30 June 2011 was approximately HK\$768.83 million compared with approximately HK\$764.16 million as at 31 December 2010. Net asset value per share as at 30 June 2011 was approximately HK\$0.44 compared with approximately HK\$0.44 as at 31 December 2010.

Contingent liabilities

Guarantees issued by the Company to bankers to secure general banking facilities granted to various subsidiaries outstanding as at 30 June 2011 amounted to approximately HK\$52.68 million compared with approximately HK\$63.86 million as at 31 December 2010.

Pledge of assets

As at 30 June 2011, certain land and buildings, investment properties, trade receivables and cash deposits with aggregate net book value of approximately HK\$446.66 million (31 December 2010 : HK\$486.15 million) were pledged to banks as collaterals for bank and other borrowings. As at 30 June 2011, total outstanding secured bank and other borrowings amounted to approximately HK\$114.43 million as compared with approximately HK\$125.04 million as at 31 December 2010.

STAFF

As at 30 June 2011, the Group's staff headcount was 1,162 (30 June 2010 : 1,432). Staff costs (excluding directors' emoluments) amounted to approximately HK\$65.81 million for the period under review as compared with approximately HK\$67.99 million for the last period. The Group has a comprehensive and competitive staff remuneration and benefits system which is formulated on the performance of individual employee.

OUTLOOK

Looking forward to the second half of 2011, the future economic environment is still challenging. The inflation in Mainland China together with Europe and U.S. debt crisis leading to uncertainty and volatility in the global economic performance and outlook. The tightening financial measures adopted by the Chinese Government may affect the growth momentum in Mainland China.

In facing the challenges, the Group will enhance its fundamental management, continuously improve its production efficiency, reduce production costs and apply strict control to daily administrative expenses and adopt proactive measures to constrain all controllable expenses in order to raise the Group's profitability.

The Group will continue to focus on its paint operation and is committed to becoming a leading manufacturer of high quality green and safe paint products.

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 period under review.

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 six months ended 30 June 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, 30 August 2011

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. Hung Ting Ho, Richard (Chong Shaw Swee, Alan as his alternate), Zhang Yulin and Ko Sheung Chi as non-executive directors; and Sir David Akers-Jones, Messrs. Danny T Wong, Chan Wa Shek and Dr. Steven Chow as independent non-executive directors.